ANNUAL REPORT
AND ACCOUNTS
2012

www.bellway.co.uk

Front cover:
The Fort, Rochester, Kent

This page:
The Coppice, Takeley, Essex

Back cover:
City Peninsula, London Borough of Greenwich

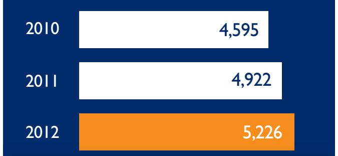
For more information on our business, go to
www.bellway.co.uk

Business Review

Financial Highlights

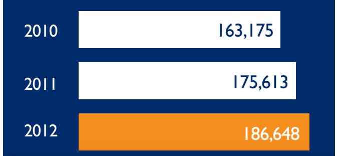
Completed sales (homes)

+6.2%



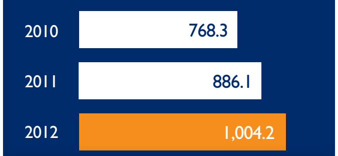
Average selling price (£)

+6.3%



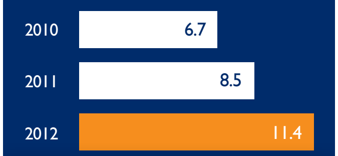
Total Group revenue (£m)

+13.3%



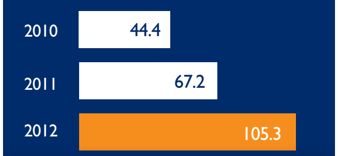
Operating margin (%)

+34.1%



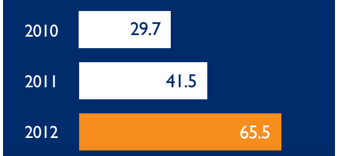
Profit before taxation (£m)

+56.8%



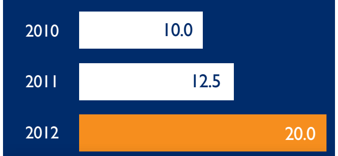
Earnings per ordinary share (p)

+57.8%



Total dividend per ordinary share (p)

+60.0%

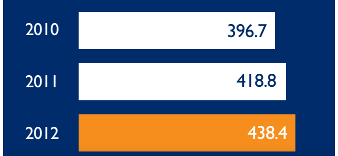


Net asset value per ordinary share (p)

+5.1%

Forward order book at 30 September (£m)

+4.7%



Business Review

1 Financial Highlights
3 Chairman's Statement
7 Chief Executive's Operating Review
15 Corporate Responsibility Policy
16 2012 Corporate Responsibility Statement
19 Key Performance Indicators (Non-Financial)
21 Environmental Policy
22 Group Finance Director's Review
26 Operating Risk Statement

Governance

28 Board of Directors
29 Advisers
30 Chairman's Statement on Corporate Governance
31 Report of the Directors
39 Report of the Board on Directors' Remuneration
48 Statement of Directors' Responsibilities in respect of the Annual Report and Accounts
49 Independent Auditor's Report to the Members of Bellway p.l.c.

Accounts

50 Group Income Statement
50 Statements of Comprehensive Income
51 Statements of Changes in Equity
53 Balance Sheets
54 Cash Flow Statements
55 Accounting Policies
60 Notes to the Accounts

Other Information

80 Five Year Record
81 Shareholder Information
86 Notice of Annual General Meeting
89 Glossary
IBC Principal Offices

DESIGNED *AND BUILT* *to meet* local *needs*

"Bellway" ... has delivered ... "its third successive year of growth in volume, average selling price and operating margin" ... "as a result, profit before tax has risen by 57% to £105.3 million."

Business Review

Chairman's Statement

INTRODUCTION

I am pleased to report, in respect of my last full year as Chairman, that consumer demand for new homes has shown continued resilience and this, coupled with stability in the mortgage market, has enabled Bellway to deliver its third successive year of growth in volume, average selling price and operating margin. The Group has achieved this growth primarily due to the increasing proportion of completions derived from new sites acquired since the downturn. As a result, profit before tax has risen by 57% to £105.3 million.

The Board remains mindful of concerns in the wider economy and therefore maintains a cautious approach towards gearing and employs strict capital disciplines with regard to land acquisition. Due to this approach, the improvement in profitability has been achieved with an average of only £21.9 million net bank debt throughout the year, whilst the Group's return on capital has increased to 10.1% from 7.0% last year. Against this backdrop of continued growth and low net debt, I am pleased to report that the Board is proposing to increase the final dividend by 59% to 14.0p per ordinary share, resulting in a total dividend for the year of 20.0p per ordinary share. This continues Bellway's policy of always paying an annual dividend to shareholders, with almost one third of earnings being returned in respect of the year ended 31 July 2012.

TRADING AND RESULTS

Consumer demand for new homes is strengthened by our ability to offer a range of selling incentives and this, combined with a programme of new site openings, has enabled the Group to legally complete the sale of 5,226 homes (2011 – 4,922), an increase of 6.2% compared to last year. The average selling price of these homes has risen by 6.3% to £186,648 (2011 – £175,613), the highest the Group has ever achieved. This has resulted in housing turnover rising in the year by 12.8% to £975.4 million.

The growth in both volume and average selling price has been driven by the Group's strong performance in the south of the country, particularly in London, with our southern divisions accounting for 63% (2011 – 61%) of housing turnover in the year. The increase in volume and average selling price has been further strengthened due to the increase in private completions, which have risen by 13.4% from 3,843 to 4,358 homes.

Other turnover in the year was £28.8 million which, when combined with housing turnover of £975.4 million, resulted in total growth in turnover of 13.3% for the financial year to £1,004.2 million.

The operating margin continues to improve and has increased to 11.4%, from 8.5% last year, as the Group continues to deliver a greater proportion of completions from higher margin sites acquired since the downturn, whilst simultaneously maintaining robust cost controls. As a consequence, operating profit has increased by 52% to £114.6 million compared with £75.2 million in the previous year. The operating margin in the second half of the financial year reached 12.5%. Net finance charges total £9.3 million (2011 – £8.0 million), resulting in profit before tax of £105.3 million, an increase of 57% on the previous year. Basic earnings per share have risen by 58% to 65.5p per share.

1

1 Kings Wood Park, Epping, Surrey
2 Lee Fields, Royston, South Yorkshire
3 Sunbeam Gardens, Coventry, West Midlands

2 3

Business Review

Chairman's Statement (continued)

The balance sheet remains strong, with modest net bank debt of £40.6 million at 31 July 2012, which when combined with the Group's £20 million preference shares, represents gearing of only 5.3%. Land creditors remain relatively low at only £120.6 million and, with bank facilities of £300 million, the Group retains its capacity to grow. The net asset value of 933p per ordinary share is a new year end record for the Group.

DIVIDEND

The Board is proposing to increase the final dividend by 59% from 8.8p to 14.0p per ordinary share. This produces a total dividend for the year of 20.0p, an increase of 60% compared with the previous year and this is covered 3.3 times by earnings.

The final dividend will be paid on 16 January 2013 to all ordinary shareholders on the Register of Members on 14 December 2012. The ex-dividend date is 12 December 2012.

PEOPLE

The skills and commitment of all those who work for and with the Group are critical to the success of the business. I would like to express the Board's gratitude to all the Group's employees, sub-contractors and other partners for their effort and commitment which has contributed to the ongoing growth of Bellway.

BOARD CHANGES

As previously announced, I will be retiring as non-executive Chairman on 31 January 2013 and would like to thank the Board, our employees and all connected with Bellway for their tremendous support throughout my 51 years service with the Group.

I will be replaced by the current Chief Executive, John Watson, who will become non-executive Chairman with effect from 1 February 2013 and he will be succeeded by Ted Ayres, the current Operations Director, who has been with Bellway for over ten years.

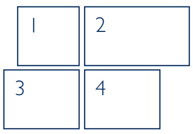
I would like to take this opportunity to wish both John and Ted every success in their new roles and look forward to them continuing their significant contributions to the Group in the years to come.

OUTLOOK

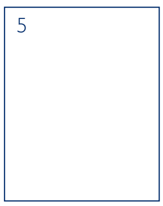
Reservations since 31 July 2012 have remained in line with expectations and ahead of last year assisted by the availability of the government's recently introduced NewBuy scheme, which provides up to 95% loan to value mortgage products in England. Assuming support from government is maintained and consumer demand follows a similar pattern to last year, the Board intends to maintain its strategy of growth in volume, average selling price and margin via a combination of changes in mix, together with the ongoing increase in the proportion of completions from newly acquired, higher margin land. This should allow the Group to continue to deliver sustainable and responsible growth in net asset value whilst maintaining annual dividend payments to shareholders commensurate with earnings growth.

Howard Dawe

Chairman
15 October 2012



1 Interior at Cherry Orchard, Weston Favell, Northamptonshire
2 The Avenues, Uddingston, South Lanarkshire
3 Boundary Park, Wolverhampton, West Midlands
4 Sales Adviser Lee Blackmore at Potters Mews, Cardiff
5 The Water Tower, London Borough of Lambeth



RE-DEVELOPING BROWNFIELD sites

> “The Group’s average selling price has increased to £186,648” ... representing “an average annual increase of 6.6% since July 2009.”

Business Review

Chief Executive’s Operating Review

CONTINUING OUR THREE PRONGED STRATEGY

There is an increasing realisation that more housebuilding is a catalyst for growth in the UK and with the assistance of government initiatives in the new homes market, we remain optimistic and believe that our business model will make the most of gradually improving market conditions.

At the start of the year the Group set itself a target of improving returns by growing volumes, average selling price and operating margin whilst, simultaneously, maintaining strict capital disciplines, thereby improving the return on capital employed.

Even though the national output of new homes is reported to be at or near an all time low of approximately 120,000 homes, Bellway has now achieved three consecutive years of increased volume output. We ended the year under review with completions up by 6.2% to 5,226 homes. This was supported by an increase in the completion of private homes of 13.4% to 4,358. This volume growth is primarily derived from increasing the average number of sales outlets to 208 from 195, having opened 40 new outlets during the year. This increase was supported by a stronger market in the south of England where the Group continues to benefit from exposure to the London boroughs. Completions to Housing Associations declined to 868 (2011 – 1,079) of which 608 were in the south.

In addition to increased volume, revenue growth is also being achieved as the Group’s average selling price has increased to £186,648 (2011 – £175,613). This represents an average annual increase of 6.6% since July 2009, during a period of nil house price inflation. The average selling price has increased in the north by 4.8% to £151,376 and in the south, by 5.9% to £216,031. The average selling price of private homes exceeded £200,000 for the first time and is up 4.6% to £200,287 compared to the previous year. The Group has benefited from a number of private completions from high value sites such as Sunningdale in Berkshire and Crouch End in north London where the average selling price is £433,000 and £371,000 respectively. The average selling price of Housing Association homes was broadly similar to last year at £118,171.

The operating margin has increased from 8.5% to 11.4% and is supported by strong control of the cost base, together with some 55% of completions during the year coming from higher profit margin sites, acquired since 2008, compared with 27% in the previous year.

The effect of growth in volume, average selling price and operating margin has resulted in an increase of 57% in profit before tax to £105.3 million from £67.2 million the previous year.

LAND BANK AND FUTURE MARGIN GROWTH

With a strong balance sheet and £300 million of bank facilities currently in place the Group’s land teams are expanding and have been able to acquire land at gross margins in excess of 20%. Our approach to land buying is governed, not only by the gross margin but also by the capital required to develop each new outlet, the period of the development and the anticipated sales rate. Minimum targets are therefore set specifically in relation to the return on capital employed which, if achieved, will result in enhanced shareholder return.

1 The Ridings, Shalbourne, Wiltshire

2 Claire Callender who moved to Gelli’r Rhedyn, Fforestfach, Swansea and her sister Stephanie who lives at our development at Parc Penderri, Penllergaer, Swansea

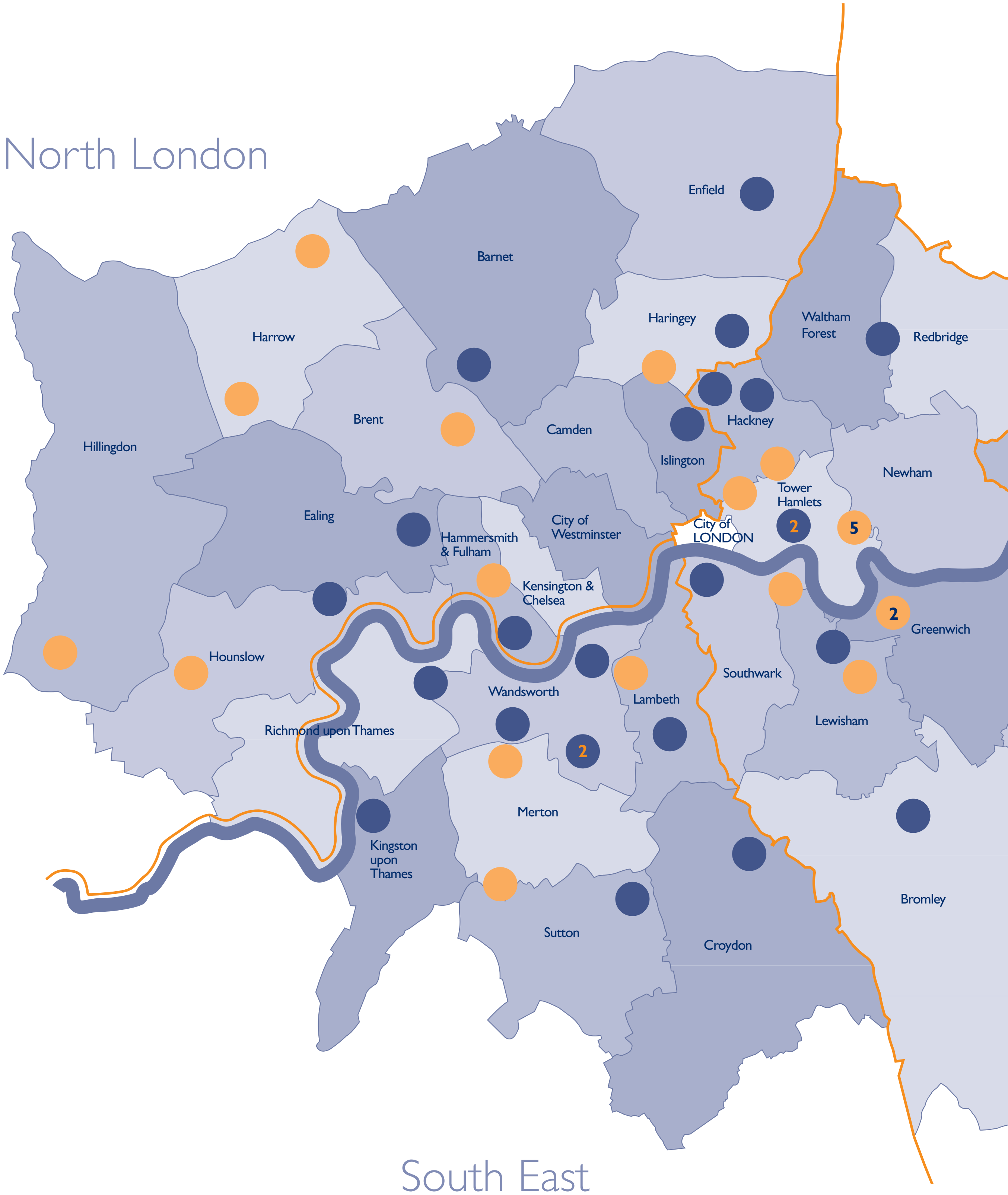
3 Bellefield, Liverpool, Merseyside

Completed sales (homes)

5,226
+6.2%

Bellway developments in London boroughs

"the Group continues to benefit from exposure to the London boroughs."



1 Limehouse Lock, Limehouse, London Borough of Tower Hamlets

2 New Festival Quarter roof garden, Poplar, London Borough of Tower Hamlets

3 Moselle Place, Hornsey, London Borough of Haringey

25 Current Sites

25 Future Sites

1

1 Leavesden development site, Hertfordshire

Business Review

Chief Executive's Operating Review (continued)

Whilst cash expenditure on land and land creditors increased to £305 million, a conservative approach to gearing is still being maintained in light of current market conditions. The short and medium-term land bank, excluding long-term land, amounted to 31,136 plots at the end of July 2012 (2011 – 31,086). This is divided into 17,636 plots owned with detailed planning permission and a further 13,500 plots which are either owned or contracted pending a planning permission, which we refer to as the 'pipeline'. We have acquired some 54% of the short and medium-term plots since the housing market downturn and the short and medium-term land bank is evenly spread across the country.

During the year, 4,776 new plots were brought into the land bank with planning permission, of which 2,304 plots were new acquisitions and a further 2,472 plots were converted from the pipeline after receiving planning permission.

The average plot cost at the start of the financial year was £35,800 and this increased to £39,000 at the year end. Sites located in areas such as Lambeth and Fulham, in south and south west London respectively, carry higher plot costs but, similarly, higher selling prices compared to the Group's current average selling price. Despite this high land plot cost, the gross margins and return on capital disciplines referred to earlier are not compromised.

In addition, our long-term land holdings, typically held under option, represent some 2,800 acres. Within this part of the land bank are 3,900 plots which are currently allocated in emerging plans, of which 1,773 plots are presently the subject of planning applications. The Group had, at 31 July 2012, agreed terms for the acquisition of a further 4,700 plots, all at a variety of stages within the planning process and of these, circa 500 plots have been acquired since the year end.

DIVISIONAL PERFORMANCE

The current structure of 13 divisions is managed by our Regional Chairmen who report to the Operations Director. We construct and sell homes throughout the UK with the exception of the north of Scotland, the south west of England and Northern Ireland.

The northern divisions, covering a geographical area from the Midlands up to central Scotland, legally completed 2,375 homes, an increase of 30 compared to the previous year. The North East and East Midlands divisions performed well, increasing volumes to 525 and 409 completions respectively. The average selling price in the northern divisions was £151,376, an increase of 4.8%, driven largely by changes in product mix.

2

2 Customer care in action

The seven divisions trading in the south benefited from a stronger market and accounted for 63% of housing turnover, representing 2,851 homes, an increase of 274 homes on the previous year. Our Thames Gateway division retains a strong presence in and around the east of London where 725 homes were legally completed. Overall, the average selling price of the southern divisions increased by 5.9% to £216,031. The average selling price in the South East division is now the highest in the Group at just over £286,000.

CUSTOMER CARE AND THE WIDER COMMUNITY

During the course of a year we monitor customer satisfaction levels by employing an independent company who benchmark our performance. We continue to generate strong satisfaction scores which, this year, reached 93.8% in respect of 'Recommend Bellway to a Friend'. Additionally, Head Office management contacts customers directly on a regular basis with any findings or concerns reported to divisional management. We aim to respond to customer complaints within seven days, with a 24 hour helpline in the case of emergencies, and the Group has been awarded a 5 star rating by the House Builders Federation following a survey of our customers. Every year the NHBC run a Pride in the Job Award for site construction staff and this year we received 23 awards which is our fourth consecutive year of improvement. This reflects the amount of training being undertaken in the business, especially at site level, which is set to increase in the future. In addition, for the second year running, our East Midlands division has won the NHBC Regional Award for the East of England. We have seen a fall in our accident rate per employee during the year and no statutory notices have been served on the Group now for over three years. During the year five sites received commendation awards in respect of health and safety standards.

The Group seeks to ensure that all employees and sub-contractors on our building sites carry a CSCS qualification, further highlighting our commitment to a trained workforce.

Looking forward, whilst we need to keep customers as our primary focus, we must also work with all stakeholders to manage the effects of our operations on the environment. Progress during the year, with regard to corporate responsibility, is published in full on our website. The Group has engaged the services of an external consultant to advise on all corporate responsibility matters including benchmarking, setting targets and objectives and reporting.

In order to minimise the effect on the local community ever increasing consultation is taking place both before and during the development process. We have also now registered some 128 sites with Considerate Constructors, an independent third party body which assesses our working practices and ensures the minimum of disruption during the construction period.

MARKET PLACE AND OUTLOOK

In March 2012, NewBuy, a new sales incentive, was introduced which is underwritten by the government and allows buyers to acquire new build houses and apartments, provided they are able to access a 5% deposit. This was in response to a continued lack of availability of affordable high loan to value mortgages, particularly for first time buyers, despite strong demand in the market place. Encouragingly, this incentive was used to reserve 133 homes in the period up to 31 July 2012. A similar scheme was introduced into Scotland during September 2012. The Group has continued to operate a part-exchange scheme and this has accounted for 13% of completions in the financial year ended July 2012. In addition, the use of FirstBuy in England and other Group shared equity schemes in Scotland and Wales accounted for only 6% of total completions, a reduction from 10% in the previous year.

Business Review

Chief Executive's Operating Review (continued)

These and other incentives were employed throughout the course of the year to support the weekly sales rate of 101 per week (2011 – 93). This represents an increase of 9% in the sales rate and can be attributed to stability in both the mortgage market and unemployment levels in the UK and consequently, cancellation rates have remained stable at around 13%.

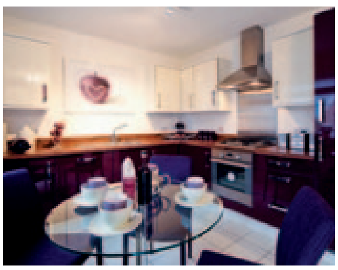
The recent government announcement on housing issues highlighted a number of initiatives to stimulate housebuilding, some of which will have implications and opportunities for the Group. These initiatives include the proposed extension of FirstBuy, the increase in the amount of public land made available for development purposes, the review of Section 106 Agreements entered into prior to 6 April 2010 and a capital programme for private, rented and affordable housing. We welcome these initiatives, the full effects of which will become clear in the coming months.

In addition to increasing the volume of completions during the course of the year, the enhanced sales rate has resulted in an order book at the end of the year rising in volume terms to 2,533 from 2,497 in 2011. The average selling price of the order book was up 2% to £174,176, representing some £441.2 million in value terms, an increase of £14.4 million on the previous year.

We are targeting to increase the number of sales outlets, once again, by around 5% by the end of this financial year and as more new land comes into production, this will underpin our strategy of increasing volumes, average selling price and operating margin. This, combined with a strong balance sheet, will leave the Group well positioned to further enhance net asset value and shareholder return in the new financial year.

John Watson

Chief Executive
15 October 2012



1 Old Killingworth Manor, Killingworth, Tyne and Wear

2 Interior at The Old Stables, Rochester, Kent

3

4

3 The Singh family who used part-exchange to move to Grosvenor Park, Barnsley, South Yorkshire

4 Site Manager Graham Towler (left) and Group Health and Safety Manager Nigel Squires at Park View, Darlington, Teesside

BUILDING VIBRANT and sustainable PLACES

to live and work

1 Forest Walk, Callander, Perthshire

2 George Carey Church of England Primary School, Barking Riverside, London Borough of Barking & Dagenham, built as part of a Section 106 planning agreement

Business Review

Corporate Responsibility Policy

Through sustainable construction we aim to create new communities and lasting environments for people now and in the future.

Bellway believes that its reputation is critical to the creation of long-term value for its shareholders. We recognise that financial success is reinforced by our behaviour beyond the balance sheet. Protecting and enhancing our reputation and social licence to operate are significant elements of sustained financial success.

At Bellway, the term Corporate Responsibility describes how we manage the environmental, social and economic effects of our business.

Through Bellway's commitment to corporate responsibility we:

- engage and respond to stakeholders, including shareholders, employees, customers, government and communities that we affect thereby improving internal and external awareness.
- comply with all relevant legislation as a minimum standard.
- work towards recognised good practice in sustainability and corporate responsibility.
- treat all employees fairly and invest in training for the medium and long-term to bring out the best in our people.
- provide a healthy and safe environment in which to work through an effective health and safety management system.
- demonstrate continual improvement in our approach to sustainable developments (in both design and practice).
- recognise and respond to the challenges and opportunities that are presented by climate change.
- invest in the communities we develop in a way that contributes to local community needs.
- manage our environmental footprint and aim to enhance our performance in areas where we operate, particularly in relation to energy and waste.
- consider and respond to the social and environmental effects of the homes we develop and communities that we create.

The following structure has been put in place to achieve these commitments:

- the Chief Executive is responsible for this policy and reports to the Board and external stakeholders on the performance of all corporate responsibility matters.
- the Chief Executive is supported by the Corporate Responsibility Group which includes senior employees from within the Group who are responsible for the development and review of this policy. They in turn delegate to managers within each of the divisions who are responsible for implementation.

Bellway is committed to reporting annually on its approach to corporate responsibility and has established key performance indicators to enable others to judge our performance. This policy does not replace existing policies in relation to environmental issues and health and safety, but has been developed to work in conjunction with them. All policies are available on the Bellway website www.bellway.co.uk and are reviewed annually.

The business environment is constantly evolving and recent years have seen an increasing emphasis on corporate responsibility. This evolution has been reflected in mounting pressure on business for greater transparency and accountability in environmental and social performance alongside economic performance.

Business Review

2012 Corporate Responsibility Statement

Over the last 12 months the focus on climate change has continued to grow and the effect of climate change on the planet is a cause for concern which is genuine and must be taken seriously. The way we live consumes natural resources and it is up to all of us to manage these resources prudently.

Our table of Key Performance Indicators ('KPIs') demonstrates Bellway's performance covering a period of up to five years against a range of headings and shows the progress we are making in, for example, reducing waste and introducing more renewable technology.

This year we will be introducing new measures into our Corporate Responsibility programme to improve the collection and reporting of data and we will be assisted by a third party adviser, Trucost, who are a leading provider of environmental information.

In 2009 we published five strategic principles that govern our approach to creating sustainable living environments:

- protection of the environment in which we work.
- prudent use of natural resources.
- creating environments that have the potential to augment economic growth and employment opportunities.
- social considerations that recognise the needs of a changing and advancing population.
- the development of communities that will endure and where people will aspire to live.

The following examples demonstrate how Bellway is performing in relation to these principles.

PROTECTION OF THE ENVIRONMENT AND PRUDENT USE OF NATURAL RESOURCES

All timber used in the construction of our homes is sourced from managed forestry. Floor coverings and floor joists are constructed from waste timber products. Our underground drainage suppliers are now using up to 50% of regraded polymers in the manufacturing process. These are examples of supply chain management reducing our reliance on the use of natural resources.

Water management is now a national priority. Last year 110 sites were developed using Sustainable Urban Drainage Systems ('SUDS'). In Rochester, Kent, our development used porous paving which provides several benefits. It reduces the volume of water run-off and therefore negates the need for the construction of new sewers. It also reduces the pressure on existing water courses while replenishing natural ground water reserves and captures pollutants especially hydrocarbons in the sub-base that would otherwise have entered drainage systems.

At Hither Green in London, we are developing a former biscuit factory. Prior to development, the site was covered in hard standing, allowing substantial water run-off. The redevelopment of the site has allowed us the opportunity to introduce a water management system using cellular blocks that provides underground water attenuation using flow valves that permit water to enter the public sewers at a reduced rate. The scheme has been designed to cope with a one in one hundred year storm together with a 30% increase to accommodate future climate change.

CREATING ENVIRONMENTS TO AUGMENT ECONOMIC GROWTH AND EMPLOYMENT OPPORTUNITIES

This year saw the first home owners moving into our large brownfield regeneration scheme at Barking in east London. This site was an industrial area once used for electricity power generation. The site has over half a mile frontage on to the River Thames. Our initial phase of development, comprising 139 social and 157 private homes, is currently in the course of development. In conjunction with our partners and well ahead of our legal obligations we have contributed substantial funds towards the development of the Rivergate Centre which incorporates a new primary school, a place of worship and community facilities such as meeting rooms and coffee shops. Jobs have been created during the construction of this large facility and permanent job opportunities are available to help with the day to day running of the centre. Needless to say a new school constructed early in the development process goes a long way to creating a sustainable environment.

SOCIAL CONSIDERATIONS TO MEET THE NEEDS OF A GROWING POPULATION

Almost 800 homes have been constructed during the course of the year to Lifetime Homes standard. This standard means that the design of the home is flexible and can be adapted to changing life-time needs. Floor joists are constructed to accommodate the possibility of a lift or hoist. The downstairs WC will typically be designed to accommodate a future shower. There were 1,614 homes constructed last year on sites where the layout was designed using a 'Secured by

Design' initiative. This creates an environment where the public realm in particular is safeguarded as far as is reasonably practicable from vandalism and theft.

THE DEVELOPMENT OF COMMUNITIES

Almost 69% of our developments last year were constructed on brownfield land, namely land with a previous use and our site at Eastleigh, near Southampton, is a typical example. It was previously a cable manufacturing facility with 12,500 square feet of office accommodation. It is now being re-developed with over 300 new homes and the office block is being brought back into beneficial use. A travel plan is being put into place which will subsidise the cost of bicycles for residents.

Our development on the south bank of the River Tyne at Gateshead, which was once a redundant railway siding, is now being re-developed with a mixture of almost 700 town houses and apartments together with a three acre office park. This site is within walking distance of the iconic Sage building and a town centre that is undergoing large scale re-development. Our development has views over the river and will provide a safe and attractive new community on what was once an industrial eyesore.

REDUCING WASTE

One of the key objectives of our Environmental Policy is to minimise any adverse affects on the environment and we believe by conducting our operations in a socially responsible way both the community and Bellway will prosper. As detailed in the table of KPIs on page 19, over the last five years the amount of waste being taken to land fill sites has reduced. A simple measure of this performance is the number of building skips used for every home sold. Managing spoil not only reduces our cost it reduces the amount of waste material leaving the site and also saves the Company substantial sums of money where the cost of hiring a skip can be as much as £200. On a site in Nottinghamshire we have adjusted land levels to retain some 50,000 cubic metres of spoil that would otherwise have gone to landfill. Crushing demolition material on site to be recycled as hardcore under footpaths and roads is now common practice.

ENERGY EFFICIENCY/SUPPLY CHAIN

Our policy also recognises that we need to respond to the challenges and opportunities that are represented by climate change. Our environmental aims are communicated throughout the Group, including appropriate sub-contractors and suppliers. This year, in conjunction with our suppliers, we have been trialling a new building block which, during manufacture, is fired at a reduced temperature compared to traditional concrete blocks and so emits less harmful CO_2. In addition, each block is constituted from 20% recycled sawdust, paper and minerals. We found that using this block reduces the construction process by approximately six weeks for an average sized home. Trials are still being undertaken but we are hopeful in future it will be used more widely throughout the Group.

Last year we installed 514 solar hot water panels, which save energy and reduce fuel bills for occupiers and as a renewable energy source they also offset carbon emissions. According to The Energy Saving Trust an average system will save around 250kg of CO_2 per year when displacing a gas heating system. We estimate that, as a result of installing these systems, over a 12 month period, we prevented around 128.5 tonnes of CO_2 being emitted in to the atmosphere.

Unlike solar hot water panels photovoltaic ('PV') panels generate electricity from sunlight which can then be used to power household appliances. Last year we installed 592 PV panels which, we estimate, reduced CO_2 emissions by around 710 tonnes.

WORKFORCE

The building industry relies heavily on the abilities of its skilled craftsmen and a large number of our employees have worked for Bellway for many years, having started their careers with the Group. We use several measurements to judge the performance of our workforce, including customer satisfaction which in respect of the metric 'Recommend Bellway to a friend', this year reached 93.8%. In recognition of our focus on customer satisfaction, we were, this year, awarded 5 star status in the HBF customer satisfaction survey. Every year the NHBC audit our sites and award Pride in the Job Quality Awards and this year, 23 of our site managers received an award and we are particularly proud in this regard of Gary Sidney, a Site Manager from our East Midlands division, who received a regional award for his work at our Poppyfields development in Nottinghamshire. This marks our fourth consecutive year of improvement.

The health and safety of our employees, sub-contractors, customers and members of the general public is a key priority of our business and a copy of our Health and Safety Policy is displayed in each Bellway site and office. A system of monitoring our work places, including areas open to members of the public and methods of work are continually monitored by both our in-house health and safety team and external health and safety consultants to ensure risks are being identified and are either removed or reduced to the lowest practical level.

We continue to run specific initiatives to raise health and safety awareness. This year, in particular, we are targeting the safety of operatives engaged in off-loading materials from delivery vehicles by handing out safety leaflets and displaying posters on-site to promote best practice.

Our commitment to high standards of health and safety has been recognised by both RoSPA and the NHBC. During the year four of our sites received commendation awards for health and safety from the NHBC and, in addition, we have received a silver award from RoSPA, recognising the Group's robust health and safety management practices.

CHARITABLE DONATIONS

The Company operates in a variety of different communities. Despite, and because of, the harsh economic climate, Bellway continues to support a range of charities and this year we have donated £45,875 covering a broad range of areas, but with a particular focus on housing, health, young people and the environment. In addition, our employees also operate their own charitable initiatives, including, for example, dress down days.

Further information concerning our approach to social responsibility can be found on our website www.bellway.co.uk/corporate-responsibility.

1 Work in progress on new homes at The Alders, Wolverhampton, West Midlands

2 Pupils from Sayes Court Primary School visit The Oaks, Addlestone, Surrey

3 Preparing a home for inspection by its new owner

Business Review

Key Performance Indicators (Non-Financial)

We use these non-financial KPIs to help us measure our performance against our corporate responsibility objectives. Financial KPIs are set out at page 23 of this Report.

Key Performance Indicators	Financial year ended 31 July 2008	2009	2010	2011	**2012**
Commercial					
Total number of homes sold	6,556	4,380	4,595	4,922	**5,226**
Number of homes sold to Registered Providers	1,337	980	943	1,079	**868**
Number of plots with planning permission	22,500	19,260	17,602	18,086	**17,636**
Number of sites registered with the Considerate Constructors Scheme(1)	–	56	89	108	**128**
Number of homes built to Lifetime Homes standards(2)	–	–	690	1,119	**798**
Environmental					
Percentage of homes developed on brownfield sites	79%	84%	80%	77%	**69%**
Number of homes per hectare	63	67	63	59	**57**
Number of EcoHomes with at least 'Very Good' rating	1,194	786	480	693	**464**
Number of homes built to Code Level 3	48	428	1,186	1,371	**964**
Number of homes built to Code Level 4(3)	–	–	–	36	**249**
Number of homes built with renewable energy technology	307	636	1,653	2,092	**2,865**
Percentage of homes built using timber frame	30%	23%	15%	13%	**5%**
Number of homes built using thin joint technology(3)	–	–	–	126	**50**
Measure of waste (number of 7m^3 skips per home sold)	4.30	3.60	3.78	3.44	**2.92**
Number of active sites with a Biodiversity Plan in place(4)	–	–	–	–	**36**
Number of compliance breaches	6	0	1	1	**1**
Number of homes with energy efficient lighting(3)	–	–	–	3,973	**5,155**
Number of homes with rainwater harvesting(3)	–	–	–	224	**260**
Number of homes with waste recycling facilities(4)	–	–	–	–	**1,613**
Number of current sites with SUDS designed into the scheme(1)	–	77	86	89	**110**
Number of trees planted(2)	–	–	8,484	8,843	**6,894**
Number of current sites with car clubs(1)	–	5	7	6	**9**
Number of homes with access to a cycle store(3)	–	–	–	2,278	**2,079**
Number of sites within 500 metres of a transport node(4)	–	–	–	–	**206**
Employees					
Employee turnover(5)	33.7%	65.2%	21.0%	13.8%	**14.6%**
Number of site workers (including sub-contractors) accredited with CSCS cards	1,042	1,793	3,489	4,037	**3,622**
Number of apprentices employed	149	30	33	43	**69**
Number of NHBC Pride in the Job Awards received	20	15	18	22	**23**
Health and Safety					
Rate of over three-day lost time accidents per 100,000 employees	980.18	973.24	945.18	767.90	**761.18**
Number of health and safety prosecutions	0	1	0	0	**0**
Creating community value					
Financial contributions under Section 106 agreements	£17.0m	£2.0m	£13.0m	£30.9m	**£39.4m**
Man hours contributed to charitable initiatives(4)	–	–	–	–	**191**
Number of plots built to Secured by Design principles(4)	–	–	–	–	**1,614**
Number of work placements offered to local people in the last three years(4)	–	–	–	–	**91**
Number of employment opportunities provided to tenants or residents in the last three years(4)	–	–	–	–	**58**
Stakeholder					
Percentage of customers who would recommend Bellway to a friend (annualised)	80%	89%	86%	91%	**94%**
Number of suppliers/contractors who have worked for Bellway for at least three years(2)	–	–	2,777	2,916	**3,579**

(1) 2009 was the first year of reporting. (2) 2010 was the first year of reporting. (3) 2011 was the first year of reporting. (4) 2012 was the first year of reporting. (5) Includes redundancies.

1

2

1 Solar panels at Waterside, Leicester, Leicestershire

2 Trinity Green, Duston, Northamptonshire

Business Review

Environmental Policy

Bellway is one of the largest housebuilding groups in the UK. The housebuilding process affects the environment by the use of land and consumption of resources throughout the development process. It is our objective to ensure that, at the conclusion of a development, an attractive and desirable new environment has been created that will be sustainable over time.

Recognising that we have responsibilities, not only to limit the negative effects of our operations on the environment, but also to enhance it, this statement sets out our policies for managing the environmental aspects across our business.

Key objectives are to:

- minimise any deleterious effects on the environment and where possible to seek environmental enhancements, concentrating on areas where there is most room for improvement.
- aim to meet and, where practicable, exceed all relevant environmental legislation and regulations.
- improve our environmental performance.
- set specific environmental objectives and periodically review progress against these objectives to ensure that Bellway's environmental aims and their importance are communicated throughout the Group, including to appropriate sub-contractors, suppliers and other parties, and that a copy of this policy statement is displayed in all Bellway sites and offices.
- consider the role that Bellway can play in helping to contribute to the principles of sustainable development within the UK.
- recognise and respond to the challenges and opportunities that are presented by climate change.

In addition to our key objectives, the Group has identified a number of specific priority areas upon which we particularly focus:

- consideration of environmental aspects in the selection and procurement of land for development, including implications for biodiversity and sustainable development.
- meeting and where possible, exceeding government targets for the redevelopment of brownfield land.
- influencing the design of sites, housing, and fittings to minimise the effects on both the natural and built environment.
- providing environmental benefits and minimising nuisance arising from construction activities and preventing pollution on development sites and surrounding areas.
- consideration of environmental issues within our corporate functions and everyday business decision-making processes.

The above statement will be balanced against economic considerations.

"The Group has achieved growth in both earnings and net asset value whilst simultaneously increasing its annual dividend payment to shareholders."

Business Review

Group Finance Director's Review

GROUP SUMMARY

Bellway is reporting a 56.8% increase in profit before tax to £105.3 million (2011 – £67.2 million), having completed its third successive year of growth in volume, average selling price and operating margin.

The Group has achieved this growth in profitability whilst simultaneously improving the return on capital employed ('ROCE') from 7.0% to 10.1%. The improvement in ROCE has been achieved whilst increasing investment in land in order to facilitate future growth in both earnings and net asset value. The increased investment in land is set against a backdrop of low net debt, having ended the year with gearing of only 5.3%, including the Group's preference shares of £20 million.

The Group now has bank facilities of £300 million, having renewed a bi-lateral facility with one of its major banking partners during the year. The growth in earnings, combined with this balance sheet strength has allowed the Board to propose a 60% increase in the total dividend for the financial year ended 31 July 2012. The Group is therefore well positioned to maintain its policy of paying an annual dividend to shareholders and achieving future sustainable capital growth, whilst remaining mindful of wider economic conditions.

GROUP RESULTS

The Group achieved a 6.2% increase in the number of legal completions to 5,226 for the year to 31 July 2012 (2011 – 4,922) and a 6.3% increase in the average selling price to £186,648 (2011 – £175,613). The increase in average selling price is primarily due to an increasing proportion of completions in the south, where the average selling price was £216,031 (2011 – £203,973), and a 13.4% increase in the number of private units across the Group with an average selling price of £200,287 (2011 – £191,492).

As a result of the increase in completions and average selling price, revenue from sales of new homes increased by 12.8% from £864.4 million to £975.4 million. Other revenue of £28.8 million, which principally comprises land and ground rent sales, has increased by £7.1 million from £21.7 million. Accordingly, total Group revenue increased by 13.3% from £886.1 million to £1,004.2 million.

The following table provides additional information on the composition of homes sold and average selling price, analysed between north, south, private and social.

Homes sold (number)	Private		Social		Total	
	2012	2011	**2012**	2011	**2012**	2011
North	**2,115**	2,006	**260**	339	**2,375**	2,345
South	**2,243**	1,837	**608**	740	**2,851**	2,577
Group total	**4,358**	3,843	**868**	1,079	**5,226**	4,922

Average selling price (£000)	Private		Social		Total	
	2012	2011	**2012**	2011	**2012**	2011
North	**159.9**	153.1	**82.1**	93.5	**151.4**	144.4
South	**238.4**	233.5	**133.6**	130.8	**216.0**	204.0
Group average	**200.3**	191.5	**118.2**	119.1	**186.6**	175.6

The gross margin has increased by 260 basis points to 16.1% (2011 – 13.5%) primarily because the proportion of completions from land acquired following the downturn, at margins in excess of 20%, has increased from 27% to 55%. The Group continues to sell units on land acquired prior to the downturn where the land value was written down to a gross margin of 5.5%, and at 31 July 2012 had 3,302 units remaining to sell.

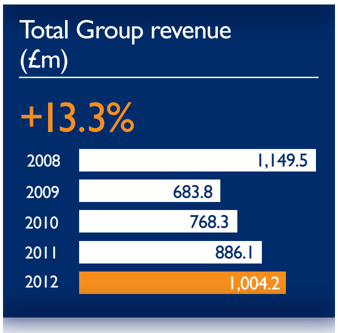
Administrative expenses have decreased to 4.7% of revenue (2011 – 5.0%) as the operating divisions have achieved growth without significantly increasing their overhead base. In monetary terms, administrative expenses have increased slightly from £44.2 million to £47.5 million, as divisional teams are bolstered in order to facilitate future growth.

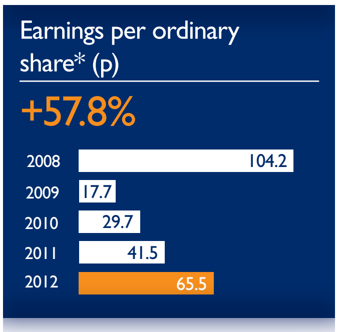
Overall the Group has increased operating profit by 52.4% to £114.6 million (2011 – £75.2 million), representing a 290 basis points increase in operating margin to 11.4% (2011 – 8.5%). This improvement was more pronounced in the second half of the financial year where the Group achieved an operating margin of 12.5%.

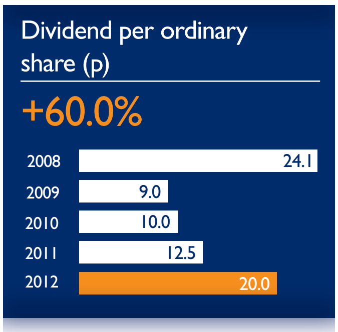
FINANCE COSTS

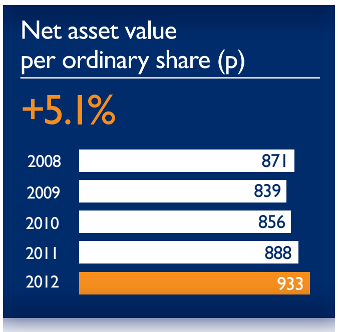
Net finance costs have increased by £1.3 million from £8.0 million to £9.3 million. The Group has benefited from a modest average net bank debt position of £21.9 million during the year and net bank finance costs of £4.7 million (2011 – £2.8 million) representing interest, commitment fees payable on undrawn facilities and the arrangement fees associated with the renewal of £170 million of bi-lateral bank facilities agreed earlier in the year.

Notional interest on land acquired on deferred payment terms has decreased slightly by £0.1 million to £3.0 million, whilst the interest payable on the Group's £20 million of preference shares, repayable in April 2014, remains at £1.9 million. Additionally, there is net interest income of £0.3 million (2011 – net expense £0.2 million).









* Pre-exceptional items.

Business Review

Group Finance Director's Review (continued)

TAXATION

The tax charge is £26.0 million on profit before tax of £105.3 million at an effective rate of 24.7% (2011 – tax charge of £17.0 million at an effective rate of 25.3%). The effective rate is below the Group's standard rate for the year of 25.3% (2011 – 27.3%) following conclusion of the prior year's corporation tax returns.

EARNINGS PER SHARE

Basic earnings per ordinary share ('EPS') have increased by almost 58% to 65.5p compared to 41.5p in 2011.

DIVIDEND

The Board is proposing an increase in the final dividend of 59.1% to 14.0p per ordinary share (2011 – 8.8p) producing a total dividend for the year of 20.0p compared to 12.5p for 2011. The total dividend is covered 3.3 times (2011 – 3.3 times).

BALANCE SHEET

The net assets attributable to shareholders increased by £59.8 million to £1,133.1 million (2011 – £1,073.3 million), with net assets per ordinary share rising accordingly by 45p to 933p (2011 – 888p).

The Group holds 2,728 (2011 – 2,428) shared equity assets at a value of £35.1 million (2011 – £33.5 million), representing a significant discount to vacant possession value (note 14). Private completions have increased by 13.4% during the year, however this has been achieved whilst restricting the use of shared equity incentives to only 6% of completions (2011 – 10%). The Group's total investment in shared equity assets represents only 3% of net asset value, thereby helping to minimise the amount of capital resource directed away from investment in potential land opportunities.

Inventories have increased from £1,270.3 million to £1,399.8 million, reflecting the increased investment in land during the year, the rise in the average number of sites from 195 to 208, and continued investment in street scenes as demanded by customers prior to purchase. The Group ended the year with net bank debt of £40.6 million (2011 – net cash of £3.4 million) having spent £305 million (2011 – £250 million) on land and land creditors.

The valuation of the Bellway p.l.c. 1972 Pension Scheme (the 'Scheme') at 31 July 2012 shows an increase in the IAS 19 deficit of £3.1 million to £11.5 million (2011 – £8.4 million), primarily as a result of the reduction in corporate bond rates during the year. This increase is after a cash contribution of £1.2 million paid by the Group into the Scheme on 31 July 2012. The Group is expecting to make cash contributions totalling £1.2 million during the year ending 31 July 2013.

Land creditors have increased from £83.2 million to £120.6 million but remain modest in comparison to the net assets of the business. The Group tries to use its relatively low cost of finance to its advantage by offering cash payments on legal completion to land vendors where appropriate, although deferred terms are used when this is a cost effective method of financing.

RETURN ON CAPITAL EMPLOYED

ROCE is a key metric used by the Group during the land acquisition process and for monitoring performance thereafter. The Group ROCE has increased from 7.0% to 10.1% in the year, reflecting the margin improvement arising from the higher proportion of completions achieved from post-downturn land acquisitions. The inclusion of land creditors as capital in the ROCE calculation, thereby reflecting their longer term financing nature, has a minimal effect, reducing ROCE to 9.3% at 31 July 2012 (2011 – 6.6%).

1 2

1 Site compound

2 The Willows, Canterbury, Kent

CAPITAL MANAGEMENT

Other than the proceeds obtained from the issue of ordinary shares and reinvestment of retained profits, the Group's activities are financed principally through a combination of bank borrowings, cash in hand and its £20 million preference shares, redeemable in April 2014. During the year the Group renewed £170 million of bi-lateral bank facilities with its major banking partners. In addition, the Group often obtains deferred payment terms in its contracts for land purchases. The following table provides the composition of the capital structure of the business:

	2012 £000	2011 £000
Equity	**1,133.1**	1,073.3
Preference shares	**20.0**	20.0
Net bank debt	**40.6**	–
Capital employed	**1,193.7**	1,093.3

Bank facilities which expire during the course of the following financial years are as follows:

By 31 July 2014	£25 million
By 31 July 2015	£125 million
By 31 July 2016	£80 million
By 31 July 2017	£70 million
TOTAL	**£300 million**

The Board remains satisfied with the level of the Group's borrowing facilities and whilst mindful of wider economic uncertainties, believe Bellway's balance sheet retains significant capacity for growth.

TREASURY POLICY AND LIQUIDITY RISK

The Group's treasury policy has, as its principal objective, the maintenance of flexible bank facilities in order to meet anticipated borrowing requirements. An internal cash forecasting system enables the Group to plan and assess its future treasury needs. Relationships with banks and overall cash management are co-ordinated centrally.

Short-term cash surpluses are placed on deposit at competitive rates with high quality counterparties. Other than disclosed above, there are no financial instruments, derivatives or commodity contracts.

CREDIT RISK

The Group's credit risk is largely alleviated as the vast majority of the Group's sales are made on completion of a legal contract, at which point monies are received in exchange for transfer of legal title. Those completions where shared equity incentives are used do represent some exposure to credit risk but this is small, given the high number of counterparties.

INTEREST RATE RISK

The Group's attitude to interest rate risk is influenced by the existing and forecast conditions prevailing at the time that each new interest bearing instrument is entered into. This will determine, amongst other things, the term and whether a fixed or floating interest rate is obtained.

OVERALL

The Group has achieved growth in both earnings and net asset value whilst simultaneously increasing its annual dividend payment to shareholders. The ongoing balance sheet strength, combined with the significant investment in land at higher post-downturn margins, means the Group is well positioned to continue to deliver improving returns to shareholders.

Keith Adey

Finance Director
15 October 2012

Business Review

Operating Risk Statement

Risk is a natural constituent of any business and the management of risk is a key operating component of the Group. The manner in which this is carried out is highly important to the long-term success of the business. The Group has identified, evaluated and put in place strategies to mitigate the principal risks faced by the business, which are shown in the table below:

Area of Risk	Description of Risk	Mitigation of Risk
Land	The inability to source suitable land at satisfactory margins would have a detrimental effect on the Group's land bank and consequently, its future success.	■ Endeavour to ensure that a land bank with planning permission for at least three years' construction programme is in place on a rolling basis. ■ Thorough pre-purchase due diligence and viability assessments. ■ Authorisation of land purchases in line with robust Group procedures.
Planning	Delays and the increased complexity of the planning process hampers and slows the Group's growth prospects.	■ Centralised and Regional Planning Directors provide advice and support to divisions to assist with progressing the planning permission process.
Sales	Ensuring that the effects of any diminution in the size of the marketplace, the ability of prospective customers to access credit facilities or the sales prices achieved are managed in such a way as to limit any adverse financial or operational effects on the Group's performance.	■ In consultation with Head Office, local divisional management determines product range and pricing strategy commensurate with regional market conditions. ■ Use of sales incentives, where appropriate, to encourage the selling process, such as part-exchange and Express Mover. ■ Use of government-backed schemes to encourage home ownership, where appropriate. ■ Ensuring that construction rates are managed to ensure stock availability matches sales rates.
Construction	Ensuring that appropriately skilled personnel are available and that suitable materials are also available at the right price.	■ Identifying training needs and allocating appropriate resources to training. ■ Ensuring systems are in place for engaging, monitoring and controlling work carried out by sub-contractors. ■ Ensuring competitive reward systems are in place. ■ Ensuring Group purchasing arrangements are in place to secure materials at competitive prices.
Environment	Housebuilding has a significant effect on the environment and it is important that the effects of the Group's developments are, as far as possible, positive rather than negative.	■ It is our objective to ensure that at the conclusion of a development an attractive and sustainable new environment has been created that will continue over time. See our Environmental Policy on page 21, or our website at www.bellway.co.uk, for further information.
Health and Safety	It is important to ensure that the Group has adequate systems in place to mitigate, as far as possible, the dangers to people inherent in the construction process.	■ The Board considers health and safety issues at each Board meeting. ■ Regular visits to sites by senior management (independent of our divisions) and external consultants to monitor health and safety standards and performance against the Group's health and safety policies and procedures.

Area of Risk	Description of Risk	Mitigation of Risk
Personnel	Attracting and retaining the correct personnel is key to the Group's long-term success. Failure to do so will severely affect the Group's ability to perform in a highly competitive market.	■ The Group offers competitive salary and benefits packages. ■ Divisional training plans are in place. ■ Succession planning for key posts. ■ 90% of site workers (including sub-contractors) are fully accredited under CSCS.
Information Technology	It is vital that the Group has suitable information systems in place to ensure that, as far as possible, a smooth flow of information is transmitted throughout the Group and that the risk of system loss is mitigated and supported by appropriate contingency plans.	■ Group-wide systems are in place which are centrally controlled with an outsourced support function in place.
Asset Protection	The way in which the Group carries out its operations can have a material effect on the value of its assets.	■ The Group prepares viability assessments on all of its land purchases and construction projects, and keeps these under regular review to protect, wherever possible, the value of its assets.
Treasury Management	Ensuring suitable financial resources, at appropriate costs, are in place to meet Group requirements.	■ Central negotiation and control of banking facilities to ensure liquidity and debt levels are appropriate. ■ Facilities distributed across various sources. ■ Careful management and monitoring of cash forecasts.
Legal and Regulatory Compliance	Disadvantageous contractual obligations, regulatory fines or adverse publicity by failing to comply with current laws and regulations or failing to have appropriately worded contracts in place.	■ Central secretariat, human resources and legal functions advise divisions on compliance and ensure policies and procedures are kept up to date to minimise risk of non-compliance.

In addition, the Board ensures that adequate insurance cover is maintained to underpin and support the many areas in which the Group is exposed to risk of loss.

Governance

Board of Directors

1 HOWARD DAWE

NON-EXECUTIVE CHAIRMAN

Date of Birth: 7 April 1944

Mr Dawe joined Bellway in 1961, was appointed a director in 1977 and was appointed Chief Executive in 1985. In May 1997 he was appointed Acting Chairman and Chairman on 1 November 1999 when he relinquished the role of Chief Executive. On 1 November 2004, he became non-executive Chairman. He is Chairman of the Nomination Committee. He will retire from the Board on 31 January 2013.

2 JOHN WATSON

CHIEF EXECUTIVE

Date of Birth: 21 March 1954

Mr Watson, a Chartered Surveyor, joined Bellway in 1978. He was later appointed Managing Director of the North East division, a position which he held for 12 years. He joined the Board as Technical Director in 1995 and became Chief Executive on 1 November 1999. He is Chairman of the Board Committee on Non-Executive Directors' Remuneration. He will step down from his current role on 31 January 2013 to succeed Mr Dawe as non-executive Chairman.

3 TED AYRES

OPERATIONS DIRECTOR

Date of Birth: 10 October 1962

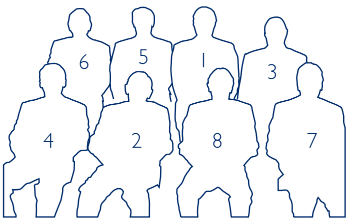
Mr Ayres joined Bellway in January 2002 as a divisional Managing Director, becoming Southern Regional Chairman in 2006, and was appointed to the Board as Operations Director on 1 August 2011. He is a member of the Board Committee on Non-Executive Directors' Remuneration. He will succeed Mr Watson as Chief Executive on 1 February 2013.

4 KEITH ADEY

FINANCE DIRECTOR

Date of Birth: 13 May 1979

Mr Adey, a Chartered Accountant, was appointed to the Board as Finance Director on 1 February 2012. He joined the Company in December 2008 as Group Chief Accountant and prior to joining Bellway he worked at Grainger Plc and KPMG. He is a member of the Board Committee on Non-Executive Directors' Remuneration.



5 PETER JOHNSON

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR
Date of Birth: 17 April 1948

Mr Johnson, a Chartered Accountant, was appointed a non-executive director on 1 November 2003. He had been, on his retirement in September 2000, a partner in KPMG for 23 years. He is a non-executive director of Sunderland Marine Mutual Insurance Company Limited and Honorary Treasurer of the University of Newcastle upon Tyne. He became senior independent non-executive director on 16 January 2009 and is Chairman of the Audit Committee and is also a member of both the Board Committee on Executive Directors' Remuneration and the Nomination Committee.

6 MIKE TOMS

NON-EXECUTIVE DIRECTOR
Date of Birth: 1 July 1953

Mr Toms was appointed a non-executive director on 1 February 2009. He is currently a non-executive director of Birmingham Airport Holdings Limited. He was formerly an executive director of BAA plc and was non-executive Chairman of Northern Ireland Electricity plc. He was also a non-executive director of Viridian Group PLC and UK Coal PLC. He is a member of the Royal Institution of Chartered Surveyors (MRICS) and a member of the Royal Town Planning Institute (MRTPI). He is Chairman of the Board Committee on Executive Directors' Remuneration, and a member of the Audit and Nomination Committees of the Board.

7 JOHN CUTHBERT OBE

NON-EXECUTIVE DIRECTOR
Date of Birth: 9 February 1953

Mr Cuthbert, a Chartered Accountant, was appointed a non-executive director on 1 November 2009. He worked in the water industry from 1991 to 2010, when he retired as Managing Director of Northumbrian Water Group plc, having formerly been Managing Director of North East Water plc and Managing Director of Essex and Suffolk Water plc. He is a member of the Audit and Nomination Committees and the Board Committee on Executive Directors' Remuneration.

8 KEVIN WRIGHTSON

GROUP COMPANY SECRETARY
Date of Birth: 27 October 1954

Mr Wrightson, a Chartered Secretary, joined Bellway in 1990. He has held senior posts within the Group, including that of Deputy Group Secretary, before being appointed as Group Company Secretary on 1 August 2002.

Advisers

Group Company Secretary and Registered Office
Kevin Wrightson FCIS
Bellway p.l.c.
Seaton Burn House
Dudley Lane, Seaton Burn
Newcastle upon Tyne
NE13 6BE
Registered number 1372603

Registrars and Transfer Office
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Financial Advisers
N M Rothschild & Sons Limited

Stockbrokers
Citigroup Global Markets Limited

Bankers
Barclays Bank PLC
Lloyds Banking Group plc

Auditors
KPMG Audit Plc

Governance

Chairman's Statement on Corporate Governance

I am pleased to report that the Company has complied with the UK Corporate Governance Code throughout the year under review. As Chairman, I am responsible for the leadership of the Board and ensuring that it conducts itself in an effective manner. The Board has agreed clearly defined roles for myself and the Chief Executive and the non-executive directors challenge management and contribute to strategy. The Board, its committees and individual directors are subject to annual performance evaluation and all directors are subject to annual re-election by shareholders. Appointments to the Board will always be made on merit against objective criteria, and the Board strongly supports the principle of boardroom diversity, in all aspects. In the current financial year, the Nomination Committee will be commencing a search for a new non-executive director to strengthen the Board's non-executive element in light of Mr Watson's forthcoming appointment as non-executive Chairman on 1 February 2013. I am also pleased to confirm that the Board will, in this financial year, for the first time be carrying out its annual performance evaluation, using external third party facilitators, in accordance with the requirements of the UK Corporate Governance Code.

Howard Dawe

Chairman
15 October 2012

Governance

Report of the Directors

The directors have pleasure in submitting the Annual Report and Accounts of Bellway p.l.c. to the shareholders for the year ended 31 July 2012.

PRINCIPAL ACTIVITIES

The Company is a holding company, owning subsidiary undertakings which continue to be engaged principally in housebuilding in the United Kingdom ('UK').

PERFORMANCE AND PROSPECTS

A review of the Group's performance and prospects that fulfils the requirements of the business review can be found in the Chairman's Statement on pages 3 and 4, the Chief Executive's Operating Review on pages 7 to 12 the Corporate Responsibility Policy on page 15, the 2012 Corporate Responsibility Statement on pages 16 and 17, the Environmental Policy on page 21 and the Group Finance Director's Review on pages 22 to 25. In addition, information in respect of the principal operating risks of the business is set out in the Operating Risk Statement on pages 26 and 27.

RESULTS AND DIVIDENDS

The profit for the year attributable to equity holders of the parent company amounts to £79.3 million (2011 – £50.1 million).

The directors have proposed a final ordinary dividend for the year ended 31 July 2012 of 14.0p per share. This has not been included within creditors as it was not approved before the year end. Dividends paid during the year comprise a final dividend of 8.8p per share in respect of the previous year ended 31 July 2011, together with an interim dividend in respect of the year ended 31 July 2012 of 6.0p per share.

The directors recommend payment of the final dividend on Wednesday 16 January 2013 to shareholders on the Register of Members at the close of business on Friday 14 December 2012.

DIRECTORS

All the directors of the Company, who are shown on pages 28 and 29, served throughout the year, with the exception of Mr Adey who was appointed on 1 February 2012, replacing Mr Leitch who was a director at the start of the year and retired on 31 January 2012.

DIRECTORS' CONTRACTS

Details of the terms of appointment of all the directors are given in the Report of the Board on Directors' Remuneration on pages 42 and 43.

DIRECTORS' INTERESTS

The directors' interests in the share capital of the Company and in share ownership plan arrangements are given in the Report of the Board on Directors' Remuneration on pages 39 to 47.

TAKEOVERS DIRECTIVE

The information for shareholders required pursuant to the relevant companies' legislation which implements the Takeovers Directive is disclosed in this report and in the Shareholder Information section on page 83.

Governance

Report of the Directors (continued)

NOTIFIABLE SHAREHOLDERS' INTERESTS

As at 31 July 2012 and at the date of this report the Company had been notified of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company:

	As at 31 July 2012		As at the date of this report	
	Number of shares with voting rights	**% total voting rights**	**Number of shares with voting rights**	**% total voting rights**
Blackrock Inc	13,183,635	10.86	13,183,635	10.86
Fidelity International Ltd/FMR Corp	9,300,000	7.66	9,300,000	7.66
JP Morgan Chase & Co	5,712,902	4.70	5,712,902	4.70
AXA Framlington Investment Management	5,603,638	4.61	5,603,638	4.61
Kames Capital	4,901,242	4.04	4,901,242	4.04
Polaris Capital Management LLC	4,897,018	4.03	4,897,018	4.03
HBOS PLC	4,261,453	3.51	4,261,453	3.51
Credit Suisse Securities (Europe) Limited	3,890,282	3.20	3,890,282	3.20

CORPORATE GOVERNANCE

Introduction

The Board acknowledges the importance of, and is committed to the principle of, achieving and maintaining a high standard of corporate governance. This report, together with the Report of the Board on Directors' Remuneration, as detailed on pages 39 to 47, describes how the Principles of Good Governance, which are set out in the UK Corporate Governance Code, are applied by the Group.

Statement of Compliance with the UK Corporate Governance Code

The Board considers that it has complied with the detailed provisions of the UK Corporate Governance Code throughout the year to 31 July 2012 and up to the date of this report. The UK Corporate Governance Code is publicly available free of charge from FRC publications, tel: 020 8247 1264, e-mail: customer.services@cch.co.uk and online at: www.frcpublications.com.

Statement about Applying the Principles of Good Governance

The Group has applied the Principles of Good Governance, including both the Main Principles and the Supporting Principles, by complying with the UK Corporate Governance Code as reported above. Further explanations of how the Main Principles and Supporting Principles have been applied are set out below and, in connection with the remuneration of the directors, in the Report of the Board on Directors' Remuneration.

The Chairman's Statement, the Chief Executive's Operating Review and the Group Finance Director's Review present a balanced and comprehensive assessment of the Group's position and prospects.

The Board

At the date of this report the Board consists of seven directors whose names, responsibilities and other details appear on pages 28 and 29. Three of the directors are executive and four of the directors, including the Chairman, are non-executive. The Board discharges its responsibilities by providing entrepreneurial leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the Company's strategic aims, ensures that the necessary financial resources and personnel are in place for the Company to meet its objectives and reviews management performance. It also defines the Company's values and standards and ensures that its obligations to its shareholders are understood and met.

The Board has adopted a schedule of matters which are specifically reserved for its decision which includes strategy and management, structure and capital, financial reporting and controls, internal controls, contracts and agreements, communication, Board membership and other appointments, remuneration, delegation of authority, corporate governance matters, policies and other miscellaneous items. In addition, it has a series of matters that are dealt with at regular Board meetings including an operational review, a financial review, land acquired, major projects, personnel, risk and health and safety. It has also adopted a framework of delegated commercial and operational authorities which define the scope of powers delegated to management below Board level.

All directors have access to the advice and services of the Group Company Secretary and all the directors may take independent professional advice at the Group's expense where they judge it necessary to discharge their responsibility as directors.

The Company's Articles of Association ('Articles') require one-third of the directors to offer themselves for re-election each year at the Annual General Meeting ('AGM') and all directors to seek re-election at least every three years. The Articles also require new directors appointed since the last AGM to offer themselves for re-election at the next AGM. In addition, the UK Corporate Governance Code includes a provision that all directors should be subject to annual re-election. As a result, all of the directors, with the exception of Mr Dawe, retire from the Board and offer themselves for re-election at the forthcoming AGM. Mr Dawe retires from the Board on 31 January 2013 and is therefore not retiring and seeking re-election at the AGM. The directors' biographies are shown on pages 28 and 29. None of the executive directors hold external directorships.

Board Effectiveness

The Chairman is responsible for leading the Board and ensuring it operates effectively. In this regard it pays due cognisance to the FRC's document entitled Guidance on Board Effectiveness dated March 2011. The directors possess an appropriate balance of skills and experience to meet the requirements of the business.

During the year there were ten Board meetings, three Audit Committee meetings, eight meetings of the Board Committee on Executive Directors' Remuneration, one meeting of the Board Committee on Non-Executive Directors' Remuneration and seven Nomination Committee meetings. The Board holds a separate meeting once a year dedicated entirely to strategy. In addition, the Board aims to visit four divisions each year, and last year visited the East Midlands, West Midlands, North London and Thames Gateway divisions, as well as receiving presentations at Board meetings from senior head office and divisional management.

There were no absences from any Board or Board Committee meetings by any director during the year.

The non-executive directors met twice during the year, including one occasion when the Chairman was not present.

Training and Development

The Board received appropriate training and updates on various matters relevant to its role, as and when required. Training needs are reviewed as part of the performance evaluation process and on an ongoing basis. Mr Adey benefited from a Board induction programme which included meetings with the Company's various advisers, and he has also attended a formal training course designed specifically for new directors of listed companies. In addition, prior to his appointment as a director, Mr Adey occupied the role of Group Chief Accountant and was therefore already well versed in the operations, practices and procedures of the Group.

Board Balance and Independence

The roles of Chairman and Chief Executive, which are recorded in writing and approved by the Board, are separate, with a clear division of responsibilities, ensuring a balance of responsibility and authority at the head of the Group.

The senior independent non-executive director is Mr Johnson, who is available for shareholders to contact with any queries or concerns they may have.

Each of the non-executive directors, excluding the Chairman, has at all times acted independently of management and has no relationship which would materially affect the exercise of his independent judgement and decision making. The Company considers all of its non-executive directors, excluding the Chairman, to be independent, as defined in the UK Corporate Governance Code.

With the forthcoming retirement of Mr Dawe as non-executive Chairman on 31 January 2013 and with the appointment of two new executive directors in the last 15 months, in Mr Ayres and Mr Adey, the Board felt it was important that there was a degree of experience and continuity in Board membership in the early years following their appointments. Consequently, the Board has decided to appoint, with effect from 1 February 2013, Mr Watson (the current Chief Executive) to the role of non-executive Chairman for a period of three years, with Mr Ayres assuming the role of Chief Executive in his place from the same date.

For similar reasons, and following rigorous review, it has been decided to extend the appointment of the senior independent non-executive director, Mr Johnson, for a further period of 15 months, at the conclusion of his current appointment letter on 31 October 2012. The review included consideration of Mr Johnson's independence, taking into account his experience in the public and private sector, his detailed knowledge of the Group's business, his ability to challenge management and to make an effective contribution to strategy. Taking all this into account, the Board considers that Mr Johnson remains independent by reference to his character and judgement.

As required under the provisions of the UK Corporate Governance Code, major investors were consulted in advance of decisions being taken and they were in support of the proposals.

Whenever any director considers that he is interested in any contract or arrangement to which the Group is or may be a party, due notice is given to the Board. No such instances of any significance have arisen during the year.

Governance

Report of the Directors (continued)

Board Evaluation

During the year the directors undertook an evaluation of the performance and effectiveness of the Board, its Committees and individual directors. The evaluation was performed using a system of self-assessment. This involved the Chairman, acting on behalf of the Board, evaluating the performance of the other individual directors, and the non-executive directors, led by the senior independent non-executive director, assessing the performance of the Chairman, taking into account the views of the executive directors. The Board, led by the Chairman, evaluated its own performance, and the standing Committees, led by the Chairman of each, evaluated their own performance.

As part of the process of ensuring Board effectiveness, the non-executive directors, led by the senior independent non-executive director, met without the Chairman present. Additionally, the Chairman held a meeting with the non-executive directors without the executives present. The Chairman also had meetings with each of the executive directors.

The Board and its Committees reviewed the results of these evaluations and are satisfied with the evidence they provided about the balance, effectiveness and performance of the Board and its Committees and the effectiveness and commitment of each director.

Following formal rigorous evaluation, the Chairman, acting on behalf of the Board, is satisfied as to the effectiveness and commitment of all of the directors.

The Board Committees

The Board has formally constituted Audit, Remuneration and Nomination Committees. The terms of reference for the Audit and Nomination Committees and the Board Committee on Executive Directors' Remuneration are available either on request, at the AGM or on the Group's website: www.bellway.co.uk.

Audit Committee

The Audit Committee comprises three independent non-executive directors, Mr Johnson (Chairman), Mr Toms and Mr Cuthbert, who were members of the Committee throughout the year. The Committee meets at least three times a year and met three times during the year under review. Its activities during the year related to routine matters including the review of risk, internal controls, auditor performance and review of half year and annual financial statements. The Committee met the auditor without management present on two occasions. In addition, the Committee Chairman had regular contact with the Finance Director and the external auditor.

The Committee's responsibilities include the following:

- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance.
- to review and make recommendations in relation to the half year and annual accounts prior to submission to the Board.
- to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.
- to review management's reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- to consider the appointment/re-appointment of the external auditor and assess its independence each year.
- to recommend the audit fee to the Board and pre-approve any fees in respect of non-audit services provided by the external auditor and to develop and monitor the Company's policy on the provision of non-audit services by the external auditor and to ensure that the provision of non-audit services does not restrict the external auditor's independence or objectivity.
- to agree the nature and scope of the audit and review the quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- to oversee the process for selecting the external auditor and make appropriate recommendations through the Board to the shareholders to consider at the AGM.
- to consider annually whether there is a need for an internal audit function and make a recommendation to the Board.
- to review the Group's procedures for handling allegations from 'whistleblowers'.
- to review annually the Group's compliance with its Anti-Bribery Policy.

The Board believes that Mr Johnson, the Committee Chairman, has recent relevant financial experience as a Chartered Accountant. The Group has a written Independent Auditor Policy in place which seeks to preserve the independence of its auditor by defining those non-audit services the independent auditor may and may not provide. There are clearly defined levels of approval depending on the value of work to be provided. Where fees exceed £100,000, or where total non-audit fees equate to 100% of audit fees, Board approval would be required. In respect of any material project with fees in excess of £200,000 where the auditor is considered for the provision of services, this would be the subject of a competitive tendering process.

The Committee recommended to the Board that the external auditor should be re-appointed at the forthcoming AGM. It reached this conclusion based on the on-going performance of the incumbent auditor.

Board Committee on Executive Directors' Remuneration

The Board Committee on Executive Directors' Remuneration comprises Mr Toms (Chairman), Mr Johnson and Mr Cuthbert, who were members of the Committee throughout the year.

The Committee meets at least twice a year and during the year it met on eight occasions. Its duties are to review and recommend the basic salary, taxable benefits, terms and conditions of employment, including performance-related payments, long-term incentive plans and other benefits of the executive directors and the Chairman. During the year, in addition to routine matters, the Committee consulted with major shareholders about remuneration matters, considered the government's proposals on executive pay and approved clawback arrangements with the executive directors. The Report of the Board on Directors' Remuneration on pages 39 to 47 contains details of directors' remuneration and the Group's policies in relation to directors' remuneration. The Committee is also responsible, in consultation with the Chief Executive, for monitoring the total remuneration packages of senior executives below Board level.

Board Committee on Non-Executive Directors' Remuneration

The Board Committee on Non-Executive Directors' Remuneration comprises the executive directors and is chaired by the Chief Executive. It meets at least once a year to review and recommend the terms, conditions and remuneration of the non-executive directors. Last year it met on one occasion to review the fees and terms of appointment of the non-executive directors.

Nomination Committee

The Nomination Committee comprises Mr Dawe (Chairman), Mr Johnson, Mr Toms and Mr Cuthbert, who were all members of the Committee throughout the year. The Committee's main duties are to formulate plans for succession for both executive and non-executive directors and, in particular, for the key roles of Chairman and Chief Executive and to make recommendations regarding appointments to the Board.

The Committee meets at least twice a year and last year met on seven occasions. During the year, the Committee made recommendations to the Board in relation to the succession plans for the Chairman, Chief Executive and Finance Director, and on the re-appointment of the senior independent non-executive director, whose current letter of appointment expires on 31 October 2012.

Appointments to the Board are made on merit through a formal, rigorous and transparent process against objective criteria recommended by the Committee, with due regard given to the benefits of diversity on the Board, in all aspects. The Committee also guides the whole Board in arranging orderly succession for appointments to the Board. The appointment of a non-executive director is for a specified term and re-appointment is not automatic and is made on the recommendation of the Committee.

Other committees of the Board are formed to perform certain specific functions as required from time to time.

DIRECTORS' REMUNERATION

The principles and details of directors' remuneration are detailed in the Report of the Board on Directors' Remuneration on pages 39 to 47.

ACCOUNTABILITY AND AUDIT

The statement on going concern and the Statement of Directors' Responsibilities in respect of the Annual Report and Accounts are shown on pages 36 and 48 respectively.

The Audit Committee, whose role is detailed above, has meetings at least twice a year with the Company's auditor, KPMG Audit Plc.

Internal Control

The Board is responsible for the Group's system of internal control and also for reviewing its effectiveness. The Board has reviewed the effectiveness of the system of internal control throughout the year and up to the date of approval of the Annual Report and Accounts. The system is regularly reviewed by the Board in accordance with the guidance contained in the Turnbull Report 'Internal Control Guidance for Directors of Listed Companies Incorporated in the United Kingdom'. The Board acknowledges its responsibility to establish, maintain and monitor a system of internal control relating to operational, financial and compliance controls and risk management to safeguard the shareholders' interests in the Company's assets. This system, however, is designed to manage and meet the Group's particular requirements and reduce the risk to which it is exposed rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board reviews the effectiveness of the system of internal control and, in particular, it reviews the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed on an on-going basis.

Management is responsible for the identification and evaluation of significant risks applicable to particular areas of the business together with the design and operation of suitable controls. These significant risks, which are described in the Operating Risk Statement on pages 26 and 27, are regularly assessed and cover all aspects of the business, and in particular land acquisition, planning, construction, health and safety, information and reporting systems, sales, environmental issues, personnel, asset protection, treasury management and legal and regulatory compliance. In addition, there is a responsibility to mitigate risk by the provision of adequate insurance cover and by management reporting on material changes in the business or external environment affecting the risk profile.

Governance

Report of the Directors (continued)

There is a system of regular reporting to the Board which provides for appropriate details and assurances on the assessment and control of risks.

The continuing role of the Board is, on a systematic and on-going basis, to review the key risks inherent in the business, the operation of the systems and controls necessary to manage such risks and their effectiveness and to satisfy itself that all reasonable steps are being taken to mitigate these risks. The key areas of control are as follows:

- the Board has agreed a list of key risks which affect the Group and has considered the extent to which the measures taken by the Group mitigate those risks.
- an established monitoring structure is in place, which provides short lines of communication and easy access to members of the Board.
- delegation of clearly defined responsibilities to the Regional Chairmen and divisional boards with clear procedures and authority limits in place to provide and maintain effective controls across the Group.
- a comprehensive reporting system entailing annual budgets, regular forecasting and financial reporting.
- a central treasury function operates at Head Office.
- regular meetings with divisional and regional management attended by members of the Board to review divisional performance.
- the acquisition of land and land interests is subject to checking by management and, in certain circumstances, approval by the Board to ensure that purchasing criteria are met.
- regular reviews of site costs and revenues by senior Head Office management which are reported to the Board.
- regular visits to sites by in-house health and safety teams and external consultants to monitor health and safety standards and performance.
- a number of the Group's key functions are dealt with centrally. These include finance, banking and treasury, taxation, financial services, pensions, insurance, information technology, legal, personnel and company secretarial.

The Company does not have a separate internal audit function and, as recommended by the UK Corporate Governance Code, the Audit Committee considers annually whether there is a need for such an internal audit function and makes a recommendation to the Board. During the year, having considered the robust systems and strong controls already present in the Group and as described above, the Audit Committee recommended that no separate internal audit function was presently required. The position will continue to be monitored by the Audit Committee on behalf of the Board.

Whistleblowing Arrangements
Throughout the year the Group has operated a 'whistleblowing' arrangement whereby all employees of the Group are able, via an independent external third party, to confidentially report any malpractice or matters of concern they have regarding the actions of management and employees. This facility is also available for employees to report any breaches of the Company's Anti-Bribery Policy. The Audit Committee and the Board regularly review the effectiveness of this arrangement.

RELATIONS WITH SHAREHOLDERS

The Company encourages active dialogue with its private and institutional shareholders, both current and prospective. Meetings are held with both existing and prospective institutional shareholders on a regular basis and as requested. Shareholders are also kept up to date with Company affairs through the Annual and Half Year Reports, Trading Updates and Interim Management Statements. The AGM is used to communicate with institutional and private investors and their participation is encouraged by the taking of questions by the whole Board, both during, and also informally, before and after the meeting. The senior independent non-executive director is always available to discuss issues with current and prospective shareholders and institutions, as required. In addition, the whole Board is regularly updated on shareholder and investor views and activities at Board meetings by the Chief Executive and the Finance Director. During the year the senior independent non-executive director and the chairman of the Board Committee on Executive Directors' Remuneration spoke with a number of major shareholders on succession planning and corporate governance matters.

Further information for shareholders is available under Shareholder Information on pages 81 to 85 and also on the Group's website at www.bellway.co.uk.

GOING CONCERN

After making due enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts as discussed further on page 55.

EMPLOYEES

The Group is an equal opportunities employer. It is the Group's policy to develop and apply, throughout the Group, procedures and practices which are designed to ensure that equal opportunities are provided to all employees of the Group, or those who seek employment with the Group, irrespective of their age, colour, disability, ethnic origin, gender, marital status, nationality, parental status, race, religion, belief or sexual orientation.

All employees, whether part-time, full-time or temporary, are treated fairly and equally. Selection for employment, promotion, training or other matters affecting their employment is on the basis of aptitude and ability. All employees are assisted and encouraged to develop their full potential and the talents and resources of the workforce are fully utilised to maximise the efficiency of the organisation.

It is Group policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Group) and to comply with any current legislation with regard to disabled persons. Training at each division is planned and monitored through an annual training plan.

The importance of good communications with employees is recognised by the directors. Each division maintains good employee relations using a variety of means appropriate to its own particular needs, with guidance when necessary from Head Office.

New employees, when eligible, are invited to join the Company's pension and life assurance arrangements and the savings related share option scheme. The Company also offers a private medical scheme, childcare vouchers and personal accident insurance arrangements. In accordance with statutory requirements, the Company also has a designated stakeholder pension arrangement.

ENVIRONMENTAL ISSUES

The Board recognises the importance of environmental issues and, when carrying out its business, endeavours to make a positive contribution to the quality of life, both for the present and the future. An Environmental Policy, approved by the Board, has been adopted by all trading entities within the Group. Environmental issues are addressed in the Corporate Responsibility Policy on page 15, the 2012 Corporate Responsibility Statement on pages 16 and 17, the Environmental Policy on page 21, and in the Corporate Responsibility section of the Group's website www.bellway.co.uk, a copy of which is available from the Group Company Secretary at the Company's registered office.

HEALTH AND SAFETY AT WORK

The Group promotes all aspects of health and safety throughout its operations in the interests of employees, sub-contractors, visitors to its sites and premises and the general public. Health and safety issues are considered at each Board meeting, and are addressed in the Chief Executive's Operating Review on pages 7 to 12, in the Corporate Responsibility Policy on page 15, in the 2012 Corporate Responsibility Statement on pages 16 and 17, and in the Corporate Responsibility section of the Group's website www.bellway.co.uk.

DONATIONS

During the year the Group made no political contributions but donated £45,875 (2011 – £20,716) for charitable purposes. The Company made no political contributions or charitable donations during the year (2011 – £nil).

SIGNIFICANT RELATIONSHIPS

The Company is party to a number of banking agreements with major clearing banks. The withdrawal of such facilities could have a material effect on the financing of the business. Other than the foregoing, the Group has contractual and other arrangements in place with suppliers and other third parties which support its business activities. None of these arrangements are considered to be critical to the performance of the business.

SUPPLIERS

The Group agrees terms and conditions under which business transactions with suppliers are conducted. The policy is that payments to suppliers are made in accordance with these terms and conditions, provided that the supplier is also complying with the terms and conditions. The Group's current policy concerning the payment of the majority of its materials suppliers and sub-contractors is for payment to be made at the month end following the month of the invoice. For other supplies, particularly land, the terms are many and varied. Trade creditors due within one year at 31 July 2012 of £76.3 million (2011 – £80.0 million) resulted in a creditor payment period of 24 days (2011 – 25 days). Land creditors due within one year were £89.1 million (2011 – £57.5 million). Including land creditors, the creditor payment period was 52 days (2011 – 43 days).

The parent company had no land or trade creditors at 31 July 2012 (2011 – £nil).

Governance

Report of the Directors (continued)

PURCHASE OF THE COMPANY'S OWN SHARES

The Company was given authority at the 2012 AGM to purchase its own ordinary and preference shares. As at the date of this report no market purchases have been made by the Company and this authority will expire at the end of the 2013 AGM when shareholders will be asked to renew this authority for a further year. Market purchases, for which shareholder authority is not required, have been made by the trustees of the employee share schemes (see note 20 for further details).

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNIFICATION OF DIRECTORS

The Company carries appropriate insurance cover in respect of possible legal action being taken against its directors and senior employees, and the Articles provide the directors with further protection against liability to third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of this report.

DISCLOSURE OF ALL RELEVANT INFORMATION TO AUDITOR

The directors who held office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITORS

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming AGM.

AGM – SPECIAL BUSINESS

Five resolutions will be proposed as special business at the AGM to be held on Friday 11 January 2013. Explanatory notes on these resolutions are set out in Shareholder Information on page 81.

By order of the Board

Kevin Wrightson

Group Company Secretary
15 October 2012

Governance

Report of the Board on Directors' Remuneration

HOW REMUNERATION FOR THE EXECUTIVE DIRECTORS IS DETERMINED

The remuneration of the executive directors is determined by the Board Committee on Executive Directors' Remuneration (the 'Committee') within a framework set by the Board. As at the date of this report, the Committee's members are three non-executive directors, Mr Toms (Chairman), Mr Johnson and Mr Cuthbert. None of the Committee members has a personal financial interest, other than as shareholders, in the matters to be decided. There are no conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. The Terms of Reference of the Committee are available on the Group's website www.bellway.co.uk. During the year, the Group Company Secretary provided advice on issues other than those relating to his own remuneration. The Committee also received independent external advice from New Bridge Street ('NBS'), a trading name of Aon plc. NBS was appointed by the Committee and does not provide any other services to the Company other than to the Board Committee on Non-Executive Directors' Remuneration.

The Chairman's remuneration is also determined by the Committee.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of the non-executive directors (apart from the Chairman) is determined by the Board Committee on Non-Executive Directors' Remuneration, which comprises the executive directors. The Board Committee on Non-Executive Directors' Remuneration also receives advice from the Group Company Secretary and NBS.

CONTEXT AND KEY POINTS

This report covers a year during which the Committee was busy with two primary activities, both of which were undertaken with the benefit of prior consultation with major investors, in accordance with the UK Corporate Governance Code.

The first was the setting and review of base salaries and pension provision for the new generation of executive directors at Bellway, together with preparation for the further changes to take place in early 2013.

Last year we reported on our decision to set basic pay for the two new executive directors at levels significantly below those of their more experienced predecessors, but with a stated intention of raising these towards competitive market levels as they establish themselves in their roles. As described below, the Company's operating performance has progressed significantly since these appointments and the Committee has recognised the contribution made by the new directors. From 1 August 2012 we implemented the first of a series of rises in basic pay which should in due course lead to pay levels which are competitive with other comparable housebuilders. The Board subsequently has decided to promote Mr Ayres to Chief Executive in February 2013 and the Committee will follow the same policy by appointing him on a salary of £400,000, significantly below the level currently earned by Mr Watson, but with the express intention that he should progress towards full market levels, subject to experience and satisfactory performance. When Mr Watson moves to the Chairman's role the Committee intends to take the opportunity to rebase the Chairman's fee downward to £180,000. The Committee has also examined the policy for pension provision and has set the value of the Company contribution at 20% of salary for both new executive directors.

The second area of focus was the setting of annual bonus parameters. For 2012 the total bonus potential was set at 120% of basic salary, with 90% of the bonus potential accounted for by reference to an operating profit target. The Committee set the target at a level which would require a substantial increase in operating profit, and the performance delivered was at the higher end of the range and a payment of 89.2% has been earned. The additional 30% of the bonus potential was accounted for by non-financial measures, namely land bank management, health and safety and customer care, and a payment of 30% has been earned. Progress has been made in each of these areas and in the latter case, 93.8% of Bellway's customers would now recommend Bellway to a friend, with customer care being a very important issue for the Company.

Finally, during the year, the Committee also introduced clawback provisions for both the annual bonus and long-term incentive plans ('LTIPs') in line with best practice.

Looking forward to 2012/13, other than the proposed salary increases set out above, the Committee does not anticipate any further changes to the policy.

OBJECTIVES OF THE REMUNERATION POLICY

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place in order to recruit, retain and motivate executive directors in the overall interests of shareholders, the Company, its employees and its customers.

The Committee has set, as an objective, a policy of paying a level of remuneration at around the median of a peer group of similar UK housebuilding businesses, subject to experience and performance. The Committee has used this comparative approach to benchmarking with caution, recognising the risk of upward only reviews of remuneration and different sizes of comparator businesses. The structure of the package has been designed to ensure that the performance-related elements of remuneration (annual bonus and LTIPs) constitute a significant proportion of an executive's potential total remuneration package, but are only receivable if demanding and stretching performance targets are achieved. The Committee considers that the remuneration policy is fully competitive with the market, with a significant element of the package payable in the form of share-based incentives, subject to long-term performance conditions.

Governance

Report of the Board on Directors' Remuneration (continued)

The structure of the performance conditions for annual bonus and long-term incentives has been designed to provide a strong link to the Company's performance, namely a focus on maximising profit in a sustainable fashion and generating superior shareholder returns. This approach generates strong alignment of interest between senior executives and shareholders.

In framing the Company's remuneration policy for executive directors, the Committee has given full consideration to the best practice provisions in the UK Corporate Governance Code and the Association of British Insurers' ('ABI') guidance.

When determining the elements of remuneration for the executive directors, the Committee takes into consideration the pay and conditions of employees throughout the Group as a whole, paying particular attention to the levels of pay increase awarded to the workforce generally. All employees, including the executive directors, can join the Company's savings related share option arrangements. All employees have access to pension arrangements, most have access to life assurance benefits and a significant proportion of employees benefit from health insurance, a company car or car allowance. The Committee is apprised of any significant policy changes for the workforce generally.

SUMMARY OF REMUNERATION POLICY

The policy in relation to each component of executive remuneration is described below:

Component	Policy and link to strategy	Opportunity	Operation	Changes from 1 August 2012
Salary	To be market competitive and therefore assists in recruiting and retaining executives. Reflects individual role and experience.	Details set out later in report.	Salary levels set by reference to the mid market level of a peer group of similar UK housebuilding businesses, taking account of individual performance and experience. The salaries of the two new executive directors have been positioned below the median, with a view to progressing these over time as experience is gained, subject to performance.	Salary changes described below under 'Salaries and fees'.
Annual Bonus	To reward achievement of a combination of financial and non-financial operational-based performance targets.	120% of base salary.	By providing the opportunity to earn a bonus for outstanding operational performance, both financial and non-financial.	No change.
Long-term incentives (performance shares and matching shares)	To encourage long-term value creation, to aid retention, to encourage shareholding, and to promote alignment of interest with shareholders.	Maximum 100% of salary for performance shares. For matching shares up to 2:1 equivalent to bonus investment (maximum of 25% of net cash bonus).	By using share-based incentives with performance conditions which are aligned with shareholders' interests, such as Total Shareholder Return ('TSR'), which are assessed over a three-year period.	No change.
Pension	To provide a range and value which is market competitive.	30% of salary paid as salary supplement in lieu of pension contribution for the Chief Executive and pension contribution of 10% and 16% of salary for the new directors.	Pension contribution and/or salary supplement in lieu of pension contribution.	Policy for pension contribution harmonised to 20% of salary for new directors.
Benefits	To provide a range and value which is market competitive.	Market levels.	Car or car allowance, life assurance and health insurance.	No change.

SALARIES AND FEES

Salaries are reviewed on 1 August each year, taking into account the general settlement across the Company. Any changes are implemented from that date.

For the year under review, Mr Watson received a 3% increase in basic salary which reflected the average percentage increase across the workforce generally. For 2012/13, Mr Watson has been awarded a 3% increase in basic salary, which again reflects the average percentage increase across the workforce generally for the same period.

Mr Ayres was promoted to the Board on 1 August 2011 and Mr Adey was promoted to the Board on 1 February 2012. Their commencing salaries were significantly below those of their predecessors and market benchmarks. As disclosed in last year's report and elsewhere in this report, the Committee's intention is that these will be progressively adjusted as they develop and adapt into their new roles, subject to performance.

With effect from 1 August 2012, Mr Ayres' salary has been increased from £250,000 to £300,000 and will be increased to £400,000 on appointment to the role of Chief Executive in February 2013. With effect from 1 August 2012 Mr Adey's salary has been increased from £200,000 to £225,000.

The Chairman's fee increased by 3%, which is in line with the average percentage increase across the workforce generally for the same period.

Fee levels for non-executive directors reflect the time commitment and responsibilities of the role, including membership or chairmanship of Board Committees. Fees are reviewed annually, taking into account the level of fees for similar positions in comparable companies. For the year under review, fees were increased by 3% which is in line with the average percentage increase across the workforce generally. Following a review of non-executive director fees, with effect from 1 August 2012 the following fees are payable which represent an aggregate rise of just over 3%; Mr Johnson £58,500, Mr Toms £54,500 and Mr Cuthbert £51,500.

Non-executive directors are not entitled to any benefits (with the exception of the Chairman) or pension. They do not participate in any bonus or long-term incentive plan and they are not entitled to compensation on termination of their agreements, other than normal notice provisions of three months' notice given by either party.

ANNUAL BONUS SCHEME

For the 2012/13 financial year the bonus opportunity will be unchanged at 120% of basic salary. The performance conditions relate to a stretching target range of operating profit (90%) and personal performance (30%), with personal performance being assessed by reference to land bank management, health and safety and customer care. The Committee considers that performance in relation to targets based on annual profitability and personal non-financial metrics provide a good link to the long-term performance of the business. The focus on profitability is balanced by there being a meaningful weighting of the overall bonus on a number of core non-financial KPIs which are considered to have a strong link to short and long-term shareholder returns.

The performance conditions for the annual bonus are balanced by complementary long-term performance conditions under the Bellway p.l.c. (2004) Performance Share Plan (the 'PSP'), discussed below.

The bonus will be payable in cash, with executives having the opportunity to invest up to 25% of their net cash bonus in Bellway shares held in the Bellway Employee Share Trust (1992) (the 'Trust') under the terms of the Bellway p.l.c. (2008) Share Matching Plan (the 'SMP').

Details of the bonus payments are set out in the notes to the table of directors' emoluments on page 44.

LONG-TERM INCENTIVE PLANS

The Company operates two LTIPs which are designed to focus executive directors on longer term value creation, provide a strong retentive element and alignment of interest with shareholders.

The PSP was introduced for the Company's executive directors and the Group Company Secretary. Awards will vest to executives after three years, subject to the achievement of performance conditions based around TSR which measures the total return (share price growth and dividend) on a notional investment in Bellway shares, compared to the return on the same notional investment in shares in another company or index. TSR is recognised as generating an alignment of interest between executives and institutional shareholders by providing a reward mechanism for delivering superior stock market performance. TSR calculations are independently calculated for the Committee by the Company's brokers.

For the awards made in 2011/12 the TSR condition was in two equal parts. Half the award was based on performance relative to the Housebuilders Index and half by reference to the FTSE 250 Index. During the year the views of major shareholders have been sought on alternative or additional performance measures but in the absence of any consensus and in view of the strong alignment provided by TSR, the Committee has determined that the same TSR measures will be used for the 2012/13 awards. The Committee will keep this issue under review for future years.

Governance

Report of the Board on Directors' Remuneration (continued)

Regardless of TSR performance, no part of the TSR element of an award will vest unless the Committee is satisfied that there has been an improvement in underlying financial performance over the performance period, taking into account, inter alia, operating profit, operating margin, ROCE and Net Asset Value ('NAV'). The Committee will scale back the level of vesting indicated by the TSR performance condition (potentially to zero) in circumstances where there has not been an improvement.

The SMP operates in conjunction with the annual bonus. Under the SMP senior executives may invest up to 25% of their net cash annual bonus, in Bellway shares, which must be held for a minimum of three years in the Trust. Invested shares will not be subject to a risk of forfeiture and executives will enjoy full beneficial ownership (including voting rights and dividends).

In return for investing in shares under the SMP, an award of matching shares of up to 2:1 is granted. The level of matching is on a gross basis to the net of tax bonus invested in shares.

Matching shares will vest subject to the executive remaining employed, retention of the invested shares and also subject to performance conditions. No awards have been made to date. For any awards which may be made, the performance conditions will be determined by the Committee at the time of grant.

Clawback

To improve the risk profile of the policy and in line with best practice, the Company has introduced a clawback mechanism for bonus and LTIP awards to allow the Company, in exceptional circumstances, to clawback some or all of the payments made under the variable components of an individual's remuneration.

PENSION PROVISION

Mr Watson receives a cash payment in lieu of pension contributions amounting to 30% of basic salary.

Mr Ayres is a member of the Company's Group Self Invested Personal Pension Plan ('GSIPP') and from 1 August 2011 the Company made a contribution of 16% of his basic salary to the GSIPP on his behalf. Mr Adey is also a member of the GSIPP and from his appointment to the Board on 1 February 2012 the Company made a contribution of 10% of his basic salary to the GSIPP on his behalf. The Committee has reviewed the level of pension provision and from 1 August 2012 the Company pension contribution on behalf of both Mr Ayres and Mr Adey has been increased to 20% of salary, which is a broadly mid market level of pension provision (as a percentage of salary). Any amount payable in excess of HMRC approved pension contribution limits will be paid as a cash amount.

SHAREHOLDING GUIDELINES

There is a policy for a minimum shareholding requirement for the executive directors, equivalent to 100% of basic salary. As at 31 July 2012, and at the date of this report, Mr Watson held shares with an equivalent value well in excess of 100% of his basic salary. In response to the appointment of new executive directors to the Board, the Committee has established the following mechanism to ensure that new executive directors acquire the requisite shareholding. Within a period of three months of appointment an executive director must acquire a minimum of 1,000 ordinary shares in the Company and must retain at least 50% of any shares awarded under the PSP or SMP, after allowance for paying tax, until the requisite number of shares has been accumulated. If personal circumstances make this difficult, the Committee would exercise discretion.

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

The executive directors have service contracts with a 12 month notice period from the Company and a six month notice period from the executive.

For Mr Watson, on termination by the Company, an amount equivalent to one year's salary, benefits and the average amount of the last two years' annual bonus payments, would be payable. Within six months of a change of control, if Mr Watson serves notice to terminate the contract, the liquidated damages payment would be triggered. The inclusion of average annual bonus in the calculation of compensation payable for early termination has ensured that there was variability in the potential level of compensation. In particular, after a period of poor performance, it could be expected that little or no bonus would be payable, reducing potential payout in these circumstances. Mr Watson has long service with the Company and the Committee has not considered it appropriate to re-negotiate his contract in relation to this provision.

In accordance with best practice, the service contracts of Mr Ayres and Mr Adey do not provide for the inclusion of average bonus as part of the compensation arrangements in the event of early termination and contain no liquidated damages provision. Consequently, following Mr Watson stepping down as Chief Executive on 31 January 2013, all executive directors will have service contracts fully compliant with latest best practice provisions.

If an executive director is not re-elected as a director of the Company by shareholders at an AGM then the Company may terminate the Executive's employment by giving him 12 months' notice or payment in lieu of notice.

The details of the executive directors' service contracts are as follows:

Executive director	First appointed as a director	Current contract commencement date
J K Watson	1 August 1995	16 March 2001, amended 7 October 2009
E F Ayres	1 August 2011	1 August 2011
K D Adey	1 February 2012	1 February 2012

All non-executive directors have letters of appointment with the Company of no more than three years with a three-month notice period by either side.

Non-executive director	First appointed as a director	Current letter of appointment commencement date	Current letter of appointment expiry date
H C Dawe	9 August 1977	1 November 2010	31 October 2013
P M Johnson	1 November 2003	1 November 2009	31 October 2012
M R Toms	1 February 2009	1 February 2012	31 January 2015
J A Cuthbert	1 November 2009	1 November 2009	31 October 2012

On the expiry of their existing letters of appointment, and following rigorous review, it is the intention of the Company, to issue new letters of appointment to Mr Johnson for a period of 15 months to expire on 31 January 2014 and to Mr Cuthbert for a term of three years to expire on 31 October 2015.

Mr Dawe will retire from the Board on 31 January 2013 (he will receive no payment for loss of office). On the same date Mr Watson will move from the role of Chief Executive and will, with effect from 1 February 2013, become non-executive Chairman. Mr Watson will be issued with a letter of appointment as a non-executive for a period of three years, expiring on 31 January 2016.

Mr Watson will receive no payment for loss of office as Chief Executive. In his capacity as non-executive Chairman he will receive an annual fee of £180,000 and will not receive a pension contribution nor payment in lieu of pension nor participate in annual bonus or long-term incentive arrangements. Existing entitlements under the LTIP will be maintained, together with provision for health and life assurance.

DIRECTORS' INTERESTS

The directors' interests (including family interests and holdings in which the directors are interested only as trustees) in the ordinary share capital of the Company are set out below:

	Fully paid ordinary 12.5 pence shares	
Beneficial interests	**31 July 2012**	1 August 2011 or date of appointment if later
H C Dawe	**143,634**	143,634
J K Watson	**403,384**	400,527
E F Ayres	**10,105**	3,073
K D Adey	**1,000**	–
A M Leitch (retired 31 January 2012)	**N/A**	132,473
P M Johnson	**4,300**	4,300
M R Toms	**1,500**	1,500
J A Cuthbert	**6,000**	6,000

The directors' interests (including family interests) in the preference share capital of the Company are set out below:

	Fully paid cumulative redeemable £1 preference shares	
Beneficial interests	**31 July 2012**	1 August 2011
H C Dawe	**759,164**	709,164
A M Leitch (retired 31 January 2012)	**N/A**	150,000

There has been no change in any of the above interests between 31 July 2012 and the date of this report.

Governance

Report of the Board on Directors' Remuneration (continued)

The auditor is required to report on the information contained in the following part of this report.

	Salary and fees	Annual bonus(1)	Payment in lieu of pension	Payment to Company pension scheme	Taxable benefits	Total 2012	Total 2011
	£	£	£	£	£	**£**	£
Non-executive Chairman							
H C Dawe	241,000	–	–	–	2,834	**243,834**	236,951
Executive directors							
J K Watson	544,000	648,448	163,200	–	26,120	**1,381,768**	1,239,532
E F Ayres	250,000	298,000	–	40,000	26,868	**614,868**	–
K D Adey(2)	100,000	119,200	–	10,000	12,799	**241,999**	–
A M Leitch(3)	180,404	210,984	53,100	–	14,699	**459,187**	814,411
P J Stoker(3)	–	–	–	–	–	**–**	816,597
Non-executive directors							
P M Johnson	56,650	–	–	–	–	**56,650**	55,000
M R Toms	51,500	–	–	–	–	**51,500**	50,000
J A Cuthbert	51,500	–	–	–	–	**51,500**	50,000
Totals	1,475,054	1,276,632	216,300	50,000	83,320	**3,101,306**	3,262,491

Notes:

1. The annual bonus is payable in November 2012 for performance during the year ended 31 July 2012. The performance conditions for the 2011/12 bonus were operating profit (pre-exceptional items) (90%) and personal non-financial performance (30%), with non-financial performance being assessed by reference to land bank management, health and safety and customer care. The actual bonus payments against each of these metrics were determined on the following basis:
   - operating profit was £114.6 million, with no exceptional items, an increase of 52% over the previous year and at the higher end of the target range. Operating profit of £114.6 million generated a payment of 89.2% of salary out of a maximum possible 90% of salary.
   - in respect of the non-financial elements, the Committee took account of performance against each metric. The Group had achieved a further improvement in its customer care score from 91% to 93.8%, and reduced its rate of over three-day lost time accidents per 100,000 employees to 761.18 from 767.90 and had achieved its land bank target for the following financial year. This outstanding performance generated a maximum payment of 30% in respect of the non-financial metrics.
2. Mr Adey was appointed on 1 February 2012. The bonus paid is by reference to his period of service as a director, and was based on his salary as a director.
3. Mr Stoker retired from the Board on 31 July 2011 and Mr Leitch retired from the Board on 31 January 2012. They did not receive any payments for loss of office on their retirement from the Board. Mr Leitch earned a pro rata bonus for the period that he worked in the 2011/12 financial year.

DIRECTORS' INTERESTS IN THE PSP

The executive directors have a potential future beneficial interest in certain shares held in the Trust pursuant to the allocation of shares under the PSP. Further information on the PSP is set out on pages 40 to 42. The number of shares allocated in the Trust in respect of each director, along with the market price of the shares at the date of award, is shown below:

	Fully paid ordinary 12.5 pence shares					
Potential future beneficial interests	Award date	Awards held at 1 August 2011	Awarded during the year	Awards lapsed during the year	Awards vested during the year(5)	**Awards held at 31 July 2012**
J K Watson	04.11.2008(1)	89,487	–	358	89,129	**–**
	29.10.2009(2)	72,028	–	–	–	**72,028**
	21.10.2010(3)	96,060	–	–	–	**96,060**
	24.10.2011(4)	–	77,659	–	–	**77,659**
Totals		257,575	77,659	358	89,129	**245,747**
E F Ayres	24.10.2011(4)	–	35,689	–	–	**35,689**
Totals		–	35,689	–	–	**35,689**
A M Leitch (retired 31.1.2012)(9)	04.11.2008(1)	58,167	–	233	57,934	**–**
	29.10.2009(2)	46,818	–	–	–	**46,818**
	21.10.2010(3)	62,439	–	36,421	–	**26,018**
Totals		167,424	–	36,654	57,934	**72,836**

Notes:

1. Market value on award 575.50p (04.11.2008), performance period 1 August 2008 – 31 July 2011.
2. Market value on award 715.00p (29.10.2009), performance period 1 August 2009 – 31 July 2012.
3. Market value on award 549.50p (21.10.2010), performance period 1 August 2010 – 31 July 2013.
4. Market value on award 700.50p (24.10.2011), performance period 1 August 2011 – 31 July 2014.
5. Market value on 20 January 2012, which was the day the shares in respect of Mr Watson and Mr Leitch vested, was 740.445p. The awards vested at 99.6% of the full entitlement. Aggregate gross gains made by the above directors on vesting of these awards under the PSP in the year were £1,088,918 (2011 – £368,002).
6. The performance conditions for each award are summarised below:
   (a) For the awards made on 4 November 2008, 29 October 2009 and 21 October 2010, the awards were based on a TSR condition comparing Bellway's TSR against an index of the TSR of other housebuilders ('the Housebuilders Index'). If Bellway's TSR matches that of the Housebuilders Index, 25% of the award vests. Full vesting would be achieved for 7.5% per annum outperformance of the Housebuilders Index. The companies comprising the Housebuilders Index are Barratt Developments PLC, The Berkeley Group plc, Bovis Homes Group PLC, Persimmon plc, Redrow plc and Taylor Wimpey plc.
   (b) For the award made on 24 October 2011 the TSR performance condition was in two parts. Half was measured by reference to the Housebuilders Index as above, and the other half was measured by reference to the companies in the FTSE 250 Index (excluding investment trusts and financial services). Awards start to vest at 25% if Bellway's TSR matches the median of the companies in the group, increasing on a straight-line basis so that full vesting would be achieved if Bellway's TSR reaches the upper quartile.
   (c) For the awards made on 4 November 2008 and 29 October 2009, regardless of TSR performance, no part of the TSR element of an award will vest unless the Committee is satisfied that the Company's TSR over the performance period is reflective of underlying financial performance. For the awards made on 21 October 2010 and 24 October 2011, no part of the TSR element of an award will vest unless the Committee is satisfied that there has been an improvement in underlying financial performance, taking into account, inter alia, operating profit, operating margin, ROCE and NAV.
7. The market price of the ordinary shares at 31 July 2012 was 802.50p and the range during the year was 540.50p to 859.50p.
8. The only changes in the above potential future beneficial interests between 31 July 2012 and the date of this report are in relation to the awards made on 29 October 2009 where the performance conditions have not been met and the entire awards will lapse.
9. Following Mr Leitch's retirement from the Board on 31 January 2012, the full three year holding period of each of these awards is to apply up until the normal vesting dates. In respect of the award granted on 29 October 2009, Mr Leitch may exercise the full allocation of shares awarded subject to, and calculated by reference to, the relevant performance conditions and subject to the relevant financial underpin. In respect of the award granted on 21 October 2010, Mr Leitch may exercise up to 41.67% of the allocation of shares awarded (scaled back to reflect the shorter period of service than the award was intended to cover) subject to, and calculated by reference to, the relevant performance conditions and subject to the relevant financial underpin.

Governance

Report of the Board on Directors' Remuneration (continued)

DIRECTORS' SHARE OPTIONS

Details of all directors' interests in the various share option schemes are shown below:

	Scheme	1 August 2011 or date of appointment	Granted during the year	Exercised during the year	31 July 2012	Exercise price(p)	Exercisable from	Expiry date
J K Watson	2003 SRSOS(e)	2,857	–	2,857	**–**	336.00	1 Feb 2012	31 July 2012
	2003 SRSOS(e)	–	1,618	–	**1,618**	556.00	1 Feb 2015	31 July 2015
Totals		2,857	1,618	2,857	**1,618**			
E F Ayres	1996 ESOS(b)	10,000	–	–	**10,000**	716.00	17 Nov 2007	17 Nov 2014
	1996 ESOS(b)	16,500	–	–	**16,500**	844.00	31 Oct 2008	31 Oct 2015
	2005 ESOS(c)	3,500	–	–	**3,500**	844.00	31 Oct 2008	31 Oct 2015
	DBP(4)	2,000	–	2,000	**–**	£1 in total	7 Feb 2010	7 Feb 2017
	DBP(4)	5,032	–	5,032	**–**	£1 in total	23 Nov 2010	23 Nov 2017
	2003 SRSOS(e)	2,350	–	–	**2,350**	661.60	1 Feb 2015	31 July 2015
Totals		39,382	–	7,032	**32,350**			
K D Adey	2003 SRSOS(e)	3,463	–	–	**3,463**	439.60	1 Feb 2016	31 July 2016
Totals		3,463	–	–	**3,463**			

Notes:

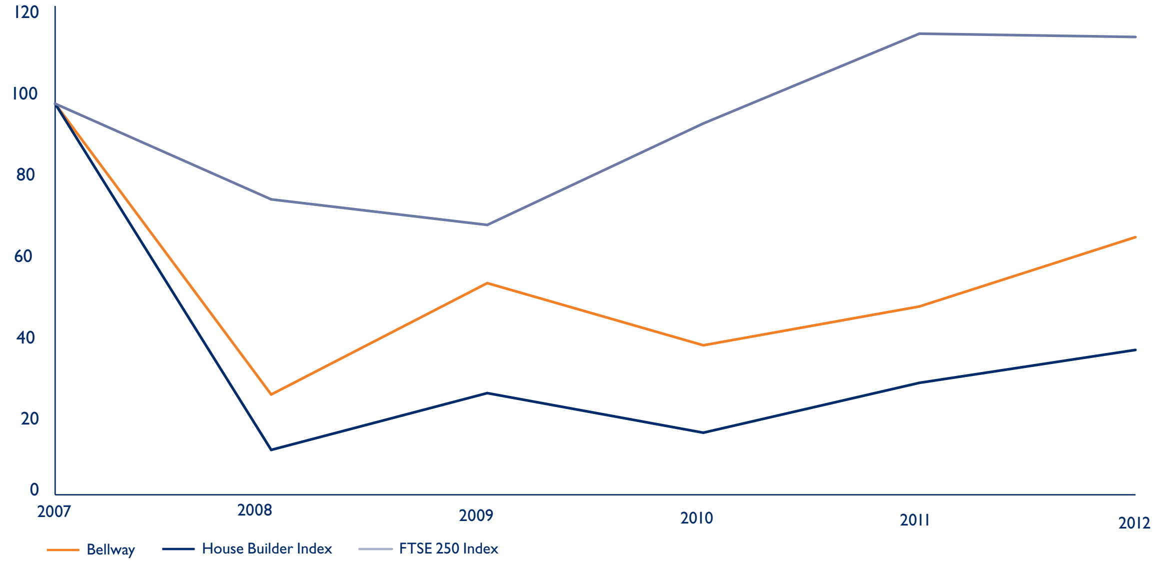
1. All of the above options were granted for nil consideration unless noted.
2. Aggregate gross gains made by the directors on the exercise of the above options in the year were £70,659.87 (2011 – nil).
3. References to (b), (c) and (e) correspond with the summary of outstanding share options in note 19 on page 71.
4. References to DBP (Deferred Bonus Plan) shares correspond with awards made under the annual bonus scheme as explained in Share-based payments in note 25(b) on page 76.
5. The 1996 ESOS award exercisable from 17 November 2007 is subject to the achievement of either of the following objective performance conditions: (a) the growth in earnings per share of the Company in any three consecutive years will not be less than the growth in the Retail Price index plus 6% over the same period; or (b) the growth in earnings per share of the Company in any three consecutive years exceeding the mean average growth in earnings per share in the same period of companies whose shares were formerly quoted in the 'Building and Construction' sector but whose shares are now quoted in the 'Household Goods' sector of the FTSE Actuaries Shares Indices. The 1996 ESOS and 2005 ESOS awards exercisable from 31 October 2008, are subject to a PBT performance target at the operating division of Bellway Homes Limited where Mr Ayres was a director at the time of the grant and during the three year performance period. Full vesting occurs where actual PBT reaches the forecast PBT, within a 10% range, in each of the three financial years of the performance period, with one-third vesting if the target is met in only one year and two-thirds vesting if the target is met in two of the three years. If the target was not reached in any of the three years then the total award would lapse. The performance conditions have been met in full.
6. The market price of the ordinary shares at 31 July 2012 was 802.50p and the range during the year was 540.50p to 859.50p.
7. There have been no changes in the above holdings between 31 July 2012 and the date of this report.

PERFORMANCE GRAPH

The graph below shows the TSR performance over the past five years of the Company, the FTSE 250 Index and the bespoke Housebuilders Index (as defined in note 6(a) on page 45). The FTSE 250 Index has been selected as the most appropriate 'broad equity market index' as the Company has been a constituent of the FTSE 250 Index over this period, and the bespoke Housebuilders Index has been selected as this index is used for the Company's long-term incentive plans.

TSR over the last five financial years

Source: Datastream



This graph looks at the value at 31 July 2012, of £100 invested in Bellway p.l.c. on 31 July 2007 compared with the value of £100 invested in the FTSE 250 Index and in the bespoke Housebuilders Index over the same period.

This report will be put to an advisory vote of the Company's shareholders at the AGM on 11 January 2013.

On behalf of the Board

Mike Toms

Chairman of the Board Committee on Executive Directors' Remuneration
15 October 2012

Governance

Statement of Directors' Responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and Accounts and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Keith Adey

Finance Director
15 October 2012

Governance

Independent Auditor's Report to the Members of Bellway p.l.c.

We have audited the financial statements of Bellway p.l.c. for the year ended 31 July 2012 set out on pages 50 to 79.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 48, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Report of the Board on Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Report of the Board on Directors' Remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 36, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

M R Thompson (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Quayside House, 110 Quayside, Newcastle upon Tyne NE1 3DX

15 October 2012

Accounts

Group Income Statement

for the year ended 31 July 2012

	Notes	2012 £000	2011 £000
Revenue	1	**1,004,227**	886,095
Cost of sales	5	**(842,124)**	(766,717)
Gross profit		**162,103**	119,378
Administrative expenses		**(47,472)**	(44,168)
Operating profit	4	**114,631**	75,210
Finance income	2	**1,676**	1,774
Finance expenses	2	**(11,023)**	(9,822)
Profit before taxation		**105,284**	67,162
Income tax expense	6	**(26,026)**	(17,018)
Profit for the year *		**79,258**	50,144

*All attributable to equity holders of the parent.

There were no exceptional items in the current or prior period (note 5).

Earnings per ordinary share – Basic	8	**65.5p**	41.5p
Earnings per ordinary share – Diluted	8	**65.2p**	41.4p

Statements of Comprehensive Income

for the year ended 31 July 2012

	Notes	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Profit/(loss) for the period		**79,258**	50,144	**(1,918)**	(1,905)
Other comprehensive (expense)/income					
Actuarial (losses)/gains on defined benefit pension plans	25	**(3,845)**	761	**–**	–
Income tax on other comprehensive expense/(income)	6	**676**	(587)	**–**	–
Other comprehensive (expense)/income for the period, net of income tax		**(3,169)**	174	**–**	–
Total comprehensive income/(expense) for the period *		**76,089**	50,318	**(1,918)**	(1,905)

*All attributable to equity holders of the parent.

Accounts

Statements of Changes in Equity

at 31 July 2012

Group	Notes	Issued capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Non-controlling interest £000	Total equity £000
Balance at 1 August 2010		15,103	160,563	1,492	857,706	1,034,864	(66)	1,034,798
Total comprehensive income for the period								
Profit for the period		–	–	–	50,144	50,144	–	50,144
Other comprehensive income *		–	–	–	174	174	–	174
Total comprehensive income for the period		–	–	–	50,318	50,318	–	50,318
Transactions with shareholders recorded directly in equity:								
Dividends on equity shares	7	–	–	–	(12,543)	(12,543)	–	(12,543)
Shares issued	19	2	79	–	–	81	–	81
Credit in relation to share options and tax thereon	25	–	–	–	1,213	1,213	–	1,213
Purchase of own shares	20	–	–	–	(559)	(559)	–	(559)
Total contributions by and distributions to shareholders		2	79	–	(11,889)	(11,808)	–	(11,808)
Balance at 31 July 2011		15,105	160,642	1,492	896,135	1,073,374	(66)	1,073,308
Total comprehensive income for the period								
Profit for the period		–	–	–	79,258	79,258	–	79,258
Other comprehensive expense *		–	–	–	(3,169)	(3,169)	–	(3,169)
Total comprehensive income for the period		–	–	–	76,089	76,089	–	76,089
Transactions with shareholders recorded directly in equity:								
Dividends on equity shares	7	–	–	–	(17,890)	(17,890)	–	(17,890)
Shares issued	19	75	2,113	–	–	2,188	–	2,188
Credit in relation to share options and tax thereon	25	–	–	–	719	719	–	719
Purchase of own shares	20	–	–	–	(1,279)	(1,279)	–	(1,279)
Total contributions by and distributions to shareholders		75	2,113	–	(18,450)	(16,262)	–	(16,262)
Balance at 31 July 2012		**15,180**	**162,755**	**1,492**	**953,774**	**1,133,201**	**(66)**	**1,133,135**

*Additional breakdown is provided in the statements of comprehensive income.

Accounts

Statements of Changes in Equity (continued)

at 31 July 2012

Company	Notes	Issued capital £000	Share premium £000	Other reserves £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 August 2010		15,103	160,563	2,145	11,957	549,577	739,345
Total comprehensive expense for the period							
Loss for the period		–	–	–	–	(1,905)	(1,905)
Other comprehensive income *		–	–	–	–	–	–
Total comprehensive expense for the period		–	–	–	–	(1,905)	(1,905)
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	7	–	–	–	–	(12,543)	(12,543)
Shares issued	19	2	79	–	–	–	81
Credit in relation to share options	25	–	–	–	957	–	957
Purchase of own shares	20	–	–	–	–	(559)	(559)
Total contributions by and distributions to shareholders		2	79	–	957	(13,102)	(12,064)
Balance at 31 July 2011		15,105	160,642	2,145	12,914	534,570	725,376
Total comprehensive expense for the period							
Loss for the period		–	–	–	–	(1,918)	(1,918)
Other comprehensive income *		–	–	–	–	–	–
Total comprehensive expense for the period		–	–	–	–	(1,918)	(1,918)
Transactions with shareholders recorded directly in equity:							
Dividends on equity shares	7	–	–	–	–	(17,890)	(17,890)
Shares issued	19	75	2,113	–	–	–	2,188
Credit in relation to share options	25	–	–	–	1,046	–	1,046
Purchase of own shares	20	–	–	–	–	(1,279)	(1,279)
Total contributions by and distributions to shareholders		75	2,113	–	1,046	(19,169)	(15,935)
Balance at 31 July 2012		**15,180**	**162,755**	**2,145**	**13,960**	**513,483**	**707,523**

* Additional breakdown is provided in the statements of comprehensive income.

Accounts

Balance Sheets

at 31 July 2012

	Notes	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
ASSETS					
Non-current assets					
Property, plant and equipment	9	**11,407**	9,023	**–**	–
Investment property	10	**9,748**	8,880	**–**	–
Investments in subsidiaries and jointly controlled entities	11	**–**	–	**30,163**	29,117
Other financial assets	14	**35,080**	33,491	**–**	–
Deferred tax assets	12	**3,241**	3,683	**–**	–
		59,476	55,077	**30,163**	29,117
Current assets					
Inventories	13	**1,399,843**	1,270,292	**–**	–
Trade and other receivables	15	**71,133**	62,176	**649,499**	668,392
Cash and cash equivalents	22	**21,413**	83,412	**48,745**	48,741
		1,492,389	1,415,880	**698,244**	717,133
Total assets		**1,551,865**	1,470,957	**728,407**	746,250
LIABILITIES					
Non-current liabilities					
Interest bearing loans and borrowings	16	**20,000**	85,000	**20,000**	20,000
Retirement benefit obligations	25	**11,501**	8,401	**–**	–
Trade and other payables	17	**37,867**	31,218	**–**	–
Deferred tax liabilities	12	**–**	66	**–**	–
		69,368	124,685	**20,000**	20,000
Current liabilities					
Interest bearing loans and borrowings	16	**62,000**	15,000	**–**	–
Corporation tax payable		**14,820**	11,836	**–**	–
Trade and other payables	17	**272,542**	246,128	**884**	874
		349,362	272,964	**884**	874
Total liabilities		**418,730**	397,649	**20,884**	20,874
Net assets		**1,133,135**	1,073,308	**707,523**	725,376
EQUITY					
Issued capital	19	**15,180**	15,105	**15,180**	15,105
Share premium		**162,755**	160,642	**162,755**	160,642
Other reserves		**1,492**	1,492	**2,145**	2,145
Share-based payment reserve		**–**	–	**13,960**	12,914
Retained earnings		**953,774**	896,135	**513,483**	534,570
Total equity attributable to equity holders of the parent		**1,133,201**	1,073,374	**707,523**	725,376
Non-controlling interest		**(66)**	(66)	**–**	–
Total equity		**1,133,135**	1,073,308	**707,523**	725,376

Approved by the Board of Directors on 15 October 2012 and signed on its behalf by

Registered number 1372603

Howard Dawe
Director

Keith Adey
Director

Accounts

Cash Flow Statements

for the year ended 31 July 2012

	Notes	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Cash flows from operating activities					
Profit/(loss) for the year		**79,258**	50,144	**(1,918)**	(1,905)
Depreciation charge	9, 10	**1,836**	1,695	**–**	–
Profit on sale of property, plant and equipment	4	**(213)**	(262)	**–**	–
Profit on sale of investment properties		**(35)**	(27)	**–**	–
Finance income	2	**(1,676)**	(1,774)	**–**	–
Finance expenses	2	**11,023**	9,822	**1,900**	1,900
Share-based payment charge	25	**1,046**	957	**–**	–
Income tax expense	6	**26,026**	17,018	**–**	–
Increase in inventories		**(129,263)**	(121,579)	**–**	–
(Increase)/decrease in trade and other receivables		**(10,617)**	(19,175)	**18,893**	14,781
Increase in trade and other payables		**28,798**	29,879	**10**	30
Cash from operations		**6,183**	(33,302)	**18,885**	14,806
Interest paid		**(7,001)**	(5,553)	**(1,900)**	(1,903)
Income tax paid		**(22,317)**	(8,444)	**–**	–
Net cash (outflow)/inflow from operating activities		**(23,135)**	(47,299)	**16,985**	12,903
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(4,551)**	(2,588)	**–**	–
Acquisition of investment properties		**(1,106)**	(1,230)	**–**	–
Proceeds from sale of property, plant and equipment		**296**	351	**–**	–
Proceeds from sale of investment properties		**233**	185	**–**	–
Interest received		**1,245**	1,322	**–**	–
Net cash outflow from investing activities		**(3,883)**	(1,960)	**–**	–
Cash flows from financing activities					
Decrease in bank borrowings		**(18,000)**	–	**–**	–
Proceeds from the issue of share capital on exercise of share options		**2,188**	81	**2,188**	81
Purchase of own shares by employee share option plans		**(1,279)**	(559)	**(1,279)**	(559)
Dividends paid		**(17,890)**	(12,540)	**(17,890)**	(12,540)
Net cash outflow from financing activities		**(34,981)**	(13,018)	**(16,981)**	(13,018)
Net (decrease)/increase in cash and cash equivalents		**(61,999)**	(62,277)	**4**	(115)
Cash and cash equivalents at beginning of year		**83,412**	145,689	**48,741**	48,856
Cash and cash equivalents at end of year	22	**21,413**	83,412	**48,745**	48,741

Accounts

Accounting Policies

BASIS OF PREPARATION

Bellway p.l.c. (the 'Company') is a company incorporated in England and Wales.

Both the Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and have been prepared on the historical cost basis except for other financial assets, which are stated at their fair value. On publishing the Company financial statements here together with the Group financial statements, which were approved for issue on 15 October 2012, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Operating Review on pages 7 to 12. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Finance Director's Review on pages 22 to 25. Note 18 to the financial statements sets out the Group's policies and processes for managing its capital, financial risk, and its exposures to credit risk and liquidity risk.

The Group's activities are financed principally by a combination of ordinary shares, preference shares, bank borrowings and cash in hand. At 31 July 2012, net bank borrowings were £40.6 million having expended £62.0 million during the year. The Group has operated within all of its banking covenants throughout the year. In addition, the Group had bank facilities of £300.0 million, expiring in tranches up to November 2016, with £238.0 million available for drawdown under such facilities at 31 July 2012.

The directors consider that the Group is well placed to manage business and financial risks in the current economic environment and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Judgements made by the directors, in the application of these accounting policies and Adopted IFRSs, that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed below.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

EFFECT OF NEW STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE FIRST TIME

The Group has adopted IFRS 7 'Financial Instruments: Disclosure' (Amendment) in the Group's financial statements for the year ended 31 July 2012. This amendment provides clarification on the standard and requires additional disclosures in relation to financial instruments. The disclosures in these financial statements reflect this amendment.

The other standards and interpretations that are applicable for the first time in the Group's financial statements for the year ended 31 July 2012 have no effect on these financial statements.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 July. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of these entities are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the significant entities' assets, liabilities, income and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

PROPERTY, PLANT AND EQUIPMENT

Items are stated at cost less accumulated depreciation and impairment losses. Depreciation on property, plant and equipment is charged to the income statement on a straight-line basis over their estimated useful lives over the following number of years:

Plant, fixtures and fittings – 3 to 10 years.
Freehold buildings – 40 years.

Freehold land is not depreciated.

Accounts

Accounting Policies (continued)

INVESTMENT PROPERTY

Investment property is initially recognised at cost. Subsequent to recognition, investment property is measured using the cost model and is carried at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged, where material, so as to write off the cost less residual value of the investment properties over their estimated useful lives. The residual values and useful lives of investment properties are reviewed at each financial year end.

The useful life of investment properties has been assessed as: 10 – 100 years.

Land is not depreciated.

INVESTMENTS IN SUBSIDIARIES

Interests in subsidiary undertakings are valued at cost less impairment.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost, in relation to work in progress and showhomes, comprises direct materials and, where applicable, direct labour costs and those overheads, not including any general administrative overheads, that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and overheads.

Land held for development, including land in the course of development until legal completion of the sale of the asset, is initially recorded at cost. Regular reviews are carried out to identify any impairment in the value of the land by comparing the total estimated selling prices less estimated selling expenses against the book cost of the land plus estimated costs to complete. Provision is made for any irrecoverable amounts. Where, through deferred payment terms, the fair value of land purchased differs from the amount that will subsequently be paid in settling the liability, the difference is charged as a finance expense in the income statement over the period to settlement.

Options purchased in respect of land are capitalised initially at cost. Regular reviews are carried out for impairment in the value of these options, and provisions made accordingly to reflect loss of value. The impairment reviews consider the period elapsed since the date of purchase of the option given that the option contract has not been exercised at the review date. Further, the impairment reviews consider the remaining life of the option, taking account of any concerns over whether the remaining time available will allow a successful exercise of the option. The carrying cost of the option at the date of exercise is included within the cost of land purchased as a result of the option exercise.

Investments in land without the benefit of planning consent, either through the purchase of land or non-refundable deposits paid on land purchase contracts subject to planning consent, are included initially at cost. Regular reviews are carried out for impairment in the values of these investments and provision made to reflect any irrecoverable element. The impairment reviews consider the existing use value of the land and assess the likelihood of achieving planning consent and the value thereof.

TRADE AND OTHER RECEIVABLES

Trade receivables are stated at their fair value at the date of initial recognition and subsequently at amortised cost less allowances for impairment.

OTHER FINANCIAL ASSETS

Other financial assets are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity within retained earnings, except for impairment losses and changes in future cash flows, which are recognised directly in the income statement. When these investments are de-recognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in the income statement.

A description of the valuation technique is given in note 14 on page 66.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash balances in hand and in the bank (including short-term cash deposits). The Group utilises bank overdraft facilities, which are repayable on demand, as part of its cash management policy. As a consequence, bank overdrafts are included as a component of net cash and cash equivalents within the cash flow statement. Offset arrangements across Group businesses are applied to arrive at the cash and overdraft figures in the balance sheet.

INTEREST BEARING LOANS AND BORROWINGS

Interest bearing loans and borrowings are stated at their fair value at the date of initial recognition and subsequently at amortised cost.

TRADE AND OTHER PAYABLES

Trade payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on deferred terms, most notably in relation to land purchases, are recorded initially at their fair value. The discount to nominal value is amortised over the period to settlement and charged to finance expenses.

SHARE CAPITAL

I. Preference share capital

Preference share capital is redeemable on 6 April 2014 or at the option of the Company (subject to relevant conditions set out in note 16) and is classified as a liability.

II. Dividends

Dividends on redeemable preference shares are recognised as a liability and accrued using the effective interest rate method. They are recognised in the income statement within finance expenses.

Other dividends are recognised as a liability in the period in which they are approved by the shareholders. Interim dividends are recognised when paid.

CLASSIFICATION OF EQUITY INSTRUMENTS AND FINANCIAL LIABILITIES ISSUED BY THE GROUP

Equity instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

GRANTS

Grants are included within work in progress in the balance sheet to the extent that they contribute to construction costs and within deferred income to the extent that they contribute to site income. Grants are credited to the income statement over the life of the developments to which they relate.

REVENUE RECOGNITION

Revenue from private housing sales and land is recognised when transactions have legally completed.

Incentives

Sales incentives, including NewBuy, are substantially cash in nature but include part-exchange costs which mainly relate to amounts written down, where the part-exchange allowance given to the purchaser of the new home is greater than the valuation of the part-exchange property. Incentives are accounted for by reducing the housebuild revenue by the cost to the Group of providing the incentive.

Sales incentives also include shared equity schemes which are accounted for as other financial assets. Revenue is recognised at the initial fair value of the other financial assets as described above.

Rental income

Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

PART-EXCHANGE PROPERTIES

The purchase and subsequent sale of part-exchange properties is an activity undertaken in order to achieve the sale of a new property. As such, the activity is regarded as a mechanism for selling. Impairments and gains or losses on the sale of part-exchange properties are classified as a cost of sale.

CONTINGENT LIABILITIES

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Accounts

Accounting Policies (continued)

TAXATION

The charge for taxation is based on the result for the year and takes into account current and deferred taxation. The charge is recognised in the income statement except to the extent that it relates to items recognised in equity in which case it is recognised in equity.

Deferred taxation is provided for all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

EMPLOYEE BENEFITS – RETIREMENT BENEFIT COSTS

For the defined benefit scheme, the liability is calculated as the present value of the defined benefit obligation at the balance sheet date. The fair values of scheme assets are then deducted. The calculation is performed by a qualified actuary using the projected unit credit method. All actuarial gains and losses are recognised immediately in the statements of comprehensive income ('SOCI'). Further details of the scheme and the valuation methods applied may be found in note 25 on pages 73 to 76.

Defined contribution pension costs are charged to the income statement in the period for which contributions are payable.

EMPLOYEE BENEFITS – SHARE-BASED PAYMENTS

In accordance with IFRS 2 'Share-based Payments' the fair value of equity settled share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured as at the date the options are granted and the charge is only amended if vesting does not take place due to non-market conditions not being met. Various option pricing models are used according to the terms of the option scheme under which the options were granted. The fair value is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of options that vest. At the balance sheet date, if it is expected that non-market conditions will not be satisfied, the cumulative expense recognised in relation to the relevant options is reversed.

IFRS 2 has been applied to options granted after 7 November 2002 which had not vested at 1 January 2005.

With respect to share-based payments, a deferred tax asset is recognised on the relevant tax base. The tax base is then compared to the cumulative share-based payment expense recognised in the income statement. Deferred tax arising on the excess of the tax base over the cumulative share-based payment expense recognised in the income statement has been recognised directly in equity outside the SOCI as share-based payments are considered to be transactions with shareholders.

A deferred tax asset relating to awards issued before 7 November 2002, which follow the exemption of IFRS 1 and have not been accounted for under IFRS 2, has been recognised on transition. Subsequent reversal of the deferred tax asset and any excess tax benefits are recognised directly in equity.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its consolidated financial statements, with the corresponding credit being recognised in equity.

OWN SHARES HELD BY ESOP TRUST

Transactions of the Company-sponsored ESOP trust are included in both the Group financial statements and the Company's own financial statements. The purchase of shares in the Company by the trust are charged directly to equity.

OPERATING LEASES

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

FINANCE INCOME AND EXPENSES

Finance income includes interest receivable on bank deposits. Other financial assets relate to the deferred element of revenues receivable from the sale of homes under shared equity schemes. The discounting of these other financial assets produces a notional interest receivable amount and this is credited to cost of sales.

Finance expenses includes interest on bank borrowings and dividends on redeemable preference shares. The discounting of the deferred payments for land purchases produces a notional interest payable amount and this is also charged to finance expenses.

EXCEPTIONAL ITEMS

Exceptional items are those which, in the opinion of the Board, are material by size or nature, non-recurring, and of such significance that they require separate disclosure on the face of the income statement.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Management considers the key estimates and judgements made in the financial statements to be related to:

Valuation of work in progress and land held for development

Inventories are carried at the lower of cost and net realisable value, less payments on account. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and overheads. Valuations of site work in progress are carried out at regular intervals and estimates of the cost to complete a site and estimates of anticipated revenues are required to enable a development profit to be determined. Management are required to employ considerable judgement in estimating the profitability of a site and in assessing any impairment provisions which may be required.

For both the years ended 31 July 2012 and 31 July 2011, a full review of inventories has been performed and write downs have been made where cost exceeds net realisable value. Estimated selling prices have been reviewed on a site by site basis and have been amended based on local management and the Board's assessment of current market conditions. For the years ended 31 July 2012 and 31 July 2011 no exceptional charge has resulted from the review.

Whilst management remain cautious, selling prices and volumes have stabilised, however the market remains fragile. Should there be further significant movements in selling prices, either further reductions or a stepped recovery, exceptional charges or credits may be necessary.

Pension

The Group has utilised a rate of return on assets and a discount rate having been advised by its actuary. To the extent that such assumed rates are different from what actually transpires, the pension liability of the Group would change.

Income taxes

A certain degree of estimation and judgement is required in establishing the tax figures prior to formal resolution with HMRC. In accordance with the contingent asset rules, detailed in IAS 37, the Group's policy is to be prudent in assessing the level of benefit which may accrue.

Other financial assets

The fair value of future anticipated cash receipts takes into account the directors' view of future house price movements, the expected timing of receipts and the likelihood that a purchaser defaults on a repayment. The directors revisit the future anticipated cash receipts from the assets at the end of each reporting period as detailed in note 14 on page 66.

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the following relevant amendments, which have not been applied in these financial statements, were in issue and endorsed by the EU but not yet effective:

- IAS 1 'Presentation of Financial Statements' (Amendment). The amendment requires the separate disclosure of the tax effect of each item of other comprehensive income. This is effective for the period beginning on 1 August 2012.
- IAS 19 'Employee Benefits' (Amendment). The amendment requires additional disclosures, the disaggregation of plan costs and the removal of the corridor approach for the recognition of actuarial gains and losses. This is effective for the period beginning on 1 August 2013.

The Board anticipates that these amendments will be adopted in the Group's financial statements in the year they become effective and that the adoption of these amendments will not have a significant effect on the Group's financial statements.

Of the other IFRSs that are available for early adoption, none are expected to have a material effect on the financial statements.

Accounts

Notes to the Accounts

1 SEGMENTAL ANALYSIS

The Board regularly reviews the Group's performance and balance sheet position for its entire operations, which are entirely based in its country of domicile, the UK, and receives financial information for the UK as a whole. As a consequence the Group has one reportable segment which is UK housebuilding.

As there continues to be only one reportable segment whose revenue, profits, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the Group financial statements, no additional numerical disclosures are necessary.

Additional information on average selling prices and the unit sales split between north, south, private and social has been included in the Group Finance Director's Review on pages 22 to 25. The Board does not, however, consider these categories to be separate reportable segments as they review the entire operations as a whole, which are based in the UK, when assessing performance and making decisions about the allocation of resources.

2 FINANCE INCOME AND EXPENSES

	2012 £000	2011 £000
Interest receivable on bank deposits	**715**	1,381
Other interest income	**961**	393
Finance income	**1,676**	1,774
Interest payable on bank loans and overdrafts	**5,388**	4,154
Interest on deferred term land payables	**3,022**	3,062
Interest element of movement in pension scheme deficit	**455**	426
Other interest expense	**258**	280
Preference dividends	**1,900**	1,900
Finance expenses	**11,023**	9,822

3 EMPLOYEE INFORMATION

Group employment costs, including directors, comprised:

	2012 £000	2011 £000
Wages and salaries	**66,577**	61,906
Social security	**7,105**	6,231
Pension costs (note 25)	**2,120**	1,919
Share-based payments (note 25)	**1,046**	957
	76,848	71,013

The average number of persons employed by the Group during the year was 1,555 (2011 – 1,496) comprising 534 (2011 – 516) administrative and 1,021 (2011 – 980) production and others employed in housebuilding and associated trading activities.

The executive directors and the Group Company Secretary are the only employees of the Company and the emoluments of the executive directors are disclosed in the Report of the Board on Directors' Remuneration on pages 39 to 47.

Key management personnel remuneration, including directors, comprised:

	2012 £000	2011 £000
Salaries and fees	**2,405**	2,756
Taxable benefits	**144**	171
Annual bonus – cash	**2,037**	1,951
Pension costs	**126**	77
Share-based payments	**507**	378
	5,219	5,333

Key management personnel, as disclosed under IAS 24 'Related Party Disclosures', comprises the directors and other senior operational management.

4 OPERATING PROFIT

	2012 £000	2011 £000
Operating profit is stated after charging/(crediting):		
Staff costs (note 3)	**76,848**	71,013
Profit on sale of property, plant and equipment	**(213)**	(262)
Depreciation of property, plant and equipment	**1,796**	1,692
Depreciation of investment property	**40**	3
Hire of plant and machinery	**8,660**	8,069
Operating lease charges for land and buildings	**1,233**	1,203
Auditor's remuneration:		
Audit of these financial statements	**30**	29
Amounts receivable by the auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**196**	191
Other services relating to taxation	**43**	45
Pension scheme audits	**4**	4

Amounts paid to the Company's auditor and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

5 EXCEPTIONAL ITEMS

Exceptional items are those which, in the opinion of the Board, are material by size or nature, non-recurring, and of such significance that they require separate disclosure on the face of the income statement.

A full review of inventories was performed at 31 July 2012 and the carrying value of land was compared to the net realisable value. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and attributable overheads. Estimated selling prices were reviewed on a site by site basis and selling prices were amended based on local management and the Board's assessment of current market conditions. No exceptional land write downs or land write backs were required as a result of this review.

There were no exceptional items in the year ended 31 July 2011.

6 INCOME TAX EXPENSE

	2012 £000	2011 £000
Current tax expense:		
UK corporation tax	**26,707**	19,164
Adjustments in respect of prior years	**(1,406)**	(1,726)
	25,301	17,438
Deferred tax expense/(credit):		
Origination and reversal of temporary differences	**519**	(285)
Reduction in tax rate	**45**	(135)
Adjustments in respect of prior years	**161**	–
	725	(420)
Total income tax expense in income statement	**26,026**	17,018

Accounts

Notes to the Accounts (continued)

6 INCOME TAX EXPENSE (CONTINUED)

	2012 %	2012 £000	2011 %	2011 £000
Reconciliation of effective tax rate:				
Profit before tax		**105,284**		67,162
Tax calculated at UK corporation tax rate	**25.3**	**26,637**	27.3	18,335
Non-deductible expenses	**0.6**	**589**	0.8	544
Reduction in tax rate	**–**	**45**	(0.2)	(135)
Adjustments in respect of prior years – current tax	**(1.3)**	**(1,406)**	(2.6)	(1,726)
– deferred tax	**0.1**	**161**	–	–
Effective tax rate and tax expense for the year	**24.7**	**26,026**	25.3	17,018

The deferred tax assets and liabilities held by the Group at the start of the year that are expected to be realised after 31 March 2013 have been revalued at a tax rate of 23%, being the corporation tax rate that was substantively enacted at the balance sheet date, with effect from 1 April 2013. The Chancellor has also proposed to further reduce the main rate of corporation tax to 22% by 1 April 2014, but this change was not substantively enacted at the balance sheet date and therefore is not included in the figures above.

The effective income tax charge is 24.7% of profit before tax (2011 – 25.3%) and compares favourably to the Group's standard tax rate for the year of 25.3% (2011 – 27.3%). The lower effective tax rate in the current year is principally due to finalisation of prior year corporation tax returns.

	2012 £000	2011 £000
Deferred tax recognised directly in equity:		
(Charge)/credit relating to equity-settled transactions	**(327)**	256
Credit/(charge) relating to actuarial movement on the defined benefit pension scheme	**676**	(587)

7 DIVIDENDS ON EQUITY SHARES

	2012 £000	2011 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2011 of 8.8p per share (2010 – 6.7p)	**10,613**	8,096
Interim dividend for the year ended 31 July 2012 of 6.0p per share (2011 – 3.7p)	**7,283**	4,471
Dividends forfeited	**(6)**	(24)
	17,890	12,543
Proposed final dividend for the year ended 31 July 2012 of 14.0p per share (2011 – 8.8p)	**17,003**	10,635

The 2012 proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 11 January 2013 and, in accordance with IAS 10 'Events after the Reporting Period', has not been included as a liability in these financial statements. At the record date for the final dividend for the year ended 31 July 2011 shares were held by the Trust (note 20) on which dividends had been waived.

8 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share is calculated by dividing earnings by the weighted average number of ordinary shares in issue during the year (excluding the weighted average number of ordinary shares held by the employee share ownership plans which are treated as cancelled).

Diluted earnings per ordinary share uses the same earnings figure as the basic calculation except that the weighted average number of shares has been adjusted to reflect the dilutive effect of outstanding share options allocated under employee share schemes where the market value exceeds the option price. It is assumed that all dilutive potential ordinary shares are converted at the beginning of the accounting period. Diluted earnings per ordinary share is calculated by dividing earnings by the diluted weighted average number of ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are outlined below:

	Earnings 2012 £000	Weighted average number of ordinary shares 2012 Number	Earnings per share 2012 p	Earnings 2011 £000	Weighted average number of ordinary shares 2011 Number	Earnings per share 2011 p
For basic earnings per ordinary share	**79,258**	**121,036,846**	**65.5**	50,144	120,705,397	41.5
Dilutive effect of options and awards		**465,010**	**(0.3)**		462,722	(0.1)
For diluted earnings per ordinary share	**79,258**	**121,501,856**	**65.2**	50,144	121,168,119	41.4

9 PROPERTY, PLANT AND EQUIPMENT

	Land and property £000	Plant, fixtures and fittings £000	Total £000
Group			
Cost			
At 1 August 2010	6,245	14,626	20,871
Additions	–	2,588	2,588
Disposals	(1)	(2,153)	(2,154)
At 1 August 2011	6,244	15,061	21,305
Additions	1,401	3,150	4,551
Disposals	–	(1,706)	(1,706)
Transfer to inventories	(445)	–	(445)
At 31 July 2012	**7,200**	**16,505**	**23,705**
Depreciation			
At 1 August 2010	1,097	11,558	12,655
Charge for year	140	1,552	1,692
On disposals	–	(2,065)	(2,065)
At 1 August 2011	1,237	11,045	12,282
Charge for year	145	1,651	1,796
On disposals	–	(1,623)	(1,623)
Transfer to inventories	(157)	–	(157)
At 31 July 2012	**1,225**	**11,073**	**12,298**
Net book value			
At 31 July 2012	**5,975**	**5,432**	**11,407**
At 31 July 2011	5,007	4,016	9,023
At 31 July 2010	5,148	3,068	8,216

Accounts

Notes to the Accounts (continued)

10 INVESTMENT PROPERTY

	Total £000
Group	
Cost	
At 1 August 2010	7,716
Additions	1,230
Disposals	(63)
At 1 August 2011	8,883
Additions	1,106
Disposals	(198)
At 31 July 2012	**9,791**
Depreciation	
At 1 August 2010	–
Charge for year	3
At 1 August 2011	3
Charge for year	40
At 31 July 2012	**43**
Net book value	
At 31 July 2012	**9,748**
At 31 July 2011	8,880
At 31 July 2010	7,716

Investment properties, which primarily represent properties where Bellway has retained an interest in a sold property, are valued under the cost model and are held at cost less accumulated depreciation and accumulated impairment losses. A formal internal valuation of investment properties was carried out at the end of the financial year. The fair value of the investment properties was assessed at £10.615 million (2011 – £9.608 million).

The investment properties are primarily a proportion of the cost of residential units constructed by the Group, the units being sold under a shared ownership scheme.

11 INVESTMENTS IN SUBSIDIARIES AND PROPORTIONATELY CONSOLIDATED JOINTLY CONTROLLED ENTITIES

The Group and Company have the following investments in subsidiaries and proportionately consolidated jointly controlled entities:

Subsidiaries

Company	Shares in subsidiary undertakings £000
Cost	
At 1 August 2011	29,117
Additions	1,046
At 31 July 2012	**30,163**

Principal subsidiary undertakings

A summary of the principal subsidiary undertakings is given in note 27 on page 79.

Jointly controlled entities

Name	Country of incorporation	Percentage of shares owned directly by Bellway p.l.c.
Barking Riverside Limited	England and Wales	51%

The Group and Company also own 25% – 50% of the ordinary share capital of several smaller proportionately consolidated jointly controlled entities. All of these entities are incorporated and registered in England and Wales.

11 INVESTMENTS IN SUBSIDIARIES AND PROPORTIONATELY CONSOLIDATED JOINTLY CONTROLLED ENTITIES (CONTINUED)

Aggregated amounts relating to share of proportionately consolidated jointly controlled entities not adjusted for transactions with Group companies

	2012 £000	2011 £000
Non-current assets	**225**	265
Current assets	**36,064**	36,123
Non-current liabilities	**(7,264)**	(6,283)
Current liabilities	**(39,707)**	(40,170)
Net liabilities	**(10,682)**	(10,065)
Income	**1,064**	5,140
Expenses	**(1,681)**	(5,240)

Guarantees relating to the overdrafts of jointly controlled entities have been given by the Company (note 23).

12 DEFERRED TAXATION

The following are the deferred tax assets/(liabilities) recognised by the Group and the movements thereon during the current and prior year:

Group	Capital allowances £000	Retirement benefit obligations £000	Share-based payments £000	Other temporary differences £000	**Total £000**
At 1 August 2010	523	2,358	813	(166)	3,528
Income statement (charge)/credit	(108)	329	99	100	420
Charge to statement of comprehensive income	–	(587)	–	–	(587)
Credit to equity	–	–	256	–	256
At 31 July 2011	415	2,100	1,168	(66)	3,617
Income statement (charge)/credit	(208)	(131)	(483)	97	(725)
Credit to statement of comprehensive income	–	676	–	–	676
Charge to equity	–	–	(327)	–	(327)
At 31 July 2012	**207**	**2,645**	**358**	**31**	**3,241**

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2012 £000	2011 £000
Capital allowances	**207**	415
Retirement benefit obligations	**2,645**	2,100
Share-based payments	**358**	1,168
Other temporary differences	**31**	–
Deferred tax assets	**3,241**	3,683
Other temporary differences	**–**	(66)
Deferred tax liabilities	**–**	(66)
Net deferred tax asset at 31 July	**3,241**	3,617

There are no deferred tax balances in respect of the Company.

Accounts

Notes to the Accounts (continued)

13 INVENTORIES

Group	2012 £000	2011 £000
Land	**852,987**	761,690
Work in progress	**479,481**	439,747
Showhomes	**45,498**	45,601
Part-exchange properties	**21,877**	23,254
	1,399,843	1,270,292

Inventories of £817.8 million were expensed in the year (2011 – £742.9 million).

In the ordinary course of business inventories have been written down by a net £14.7 million (2011 – £5.0 million) in the year.

There has been no exceptional write down of inventories in the period (2011 – £nil) as outlined in note 5.

Land with a carrying value of £56.4 million (2011 – £20.5 million) was used as security for land payables (note 17).

The directors consider all inventories to be essentially current in nature although the Group's operational cycle is such that a proportion of inventories will not be realised within twelve months. It is not possible to determine with accuracy when specific inventory will be realised as this is subject to a number of issues including consumer demand and planning permission delays.

The Company has no inventory.

14 OTHER FINANCIAL ASSETS

Group	2012 £000	2011 £000
At 1 August	**33,491**	32,664
Additions	**2,559**	6,305
Redemptions	**(857)**	(904)
Imputed interest	**(113)**	(4,574)
At 31 July	**35,080**	33,491

Other financial assets carried at fair value are categorised as level 3 within the hierarchical classification of IFRS 7 Revised (as defined within the standard).

Other financial assets comprise loans, largely with non fixed repayment dates and variable repayment amounts, provided as part of sales transactions that are secured by way of a second legal charge on the related property. The assets are recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

The fair value of future anticipated cash receipts takes into account the directors' view of future house price movements, the expected timing of receipts and the likelihood that a purchaser defaults on a repayment. The directors revisit the future anticipated cash receipts from the assets at the end of each reporting period.

The difference between the anticipated future receipt and the initial fair value is charged over the estimated deferred term to cost of sales, with the financial asset increasing to its full expected cash settlement value on the anticipated receipt date. The imputed interest charged to cost of sales for the year ended 31 July 2012 was £0.113 million (2011 – £4.574 million).

Credit risk, which the directors currently consider to be largely mitigated through holding a second legal charge over the assets, is accounted for in determining present values. The directors review the financial assets for impairment at the end of each reporting period. There were no indicators of impairment at 31 July 2012 (2011 – nil). None of the other financial assets are past their due dates (2011 – nil).

At initial recognition, the fair value of the assets is calculated using a discount rate, appropriate to the class of assets, which reflects market conditions at the date of entering into the transaction. The directors consider at the end of each reporting period whether the initial market discount rate still reflects up to date market conditions. If a revision is required, the fair value of the asset is re-measured at the present value of the revised future cash flows using this revised discount rate; the difference between this value and the carrying value of the asset is recorded against the carrying value of the asset and recognised directly in the statements of comprehensive income.

The directors considered that there was no material difference between the initial market discount rate and the market discount rate at 31 July 2012 or 31 July 2011 and accordingly have not recognised any movements directly within the statements of comprehensive income to date.

The Company has no other financial assets.

15 TRADE AND OTHER RECEIVABLES

Current receivables

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Trade receivables	**20,975**	26,316	**–**	–
Other receivables	**48,293**	33,596	**4**	3
Amounts owed by Group undertakings	**–**	–	**649,495**	668,389
Prepayments and accrued income	**1,865**	2,264	**–**	–
	71,133	62,176	**649,499**	668,392

The Group assesses the ageing of trade receivables in terms of whether amounts are receivable in less than one year or more than one year. None of the trade receivables are past their due dates (2011 – nil).

Other receivables due within one year include £19.177 million (2011 – £8.938 million) in relation to VAT recoverable.

16 INTEREST BEARING LOANS AND BORROWINGS

Non-current liabilities

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Bank loans	**–**	65,000	**–**	–
Preference shares (see note below)	**20,000**	20,000	**20,000**	20,000
	20,000	85,000	**20,000**	20,000

Current liabilities

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Bank loans	**62,000**	15,000	**–**	–

Preference shares

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Authorised, allotted, called up and fully paid				
20,000,000 at 1 August 2011 and 31 July 2012	**20,000**	20,000	**20,000**	20,000

With regard to the 9.5% cumulative redeemable preference shares 2014 of £1 each the following rights are attached:

(a) The holders are entitled to a preferential fixed cumulative dividend at an annual rate of 9.5% payable half yearly on 6 April and 6 October.

(b) The shares are redeemable by the Company at any time at a sum calculated by reference to the yield on 12% Exchequer Stock 2013/2017 provided such sum is neither less than the nominal value nor more than twice the nominal value of the shares. Any shares still in issue shall be redeemed at par on 6 April 2014.

(c) In the event of a winding up of the Company, the preference shareholders are entitled to a preferential payment in addition to any arrears of dividend, equivalent to the nominal value of the preference shares, or in the event of a voluntary winding up, an amount per share calculated by reference to the yield on 12% Exchequer Stock 2013/2017, provided such sum is neither less than the nominal value nor more than twice the nominal value of the shares.

(d) The preference shareholders have no ordinary voting rights except in circumstances where the fixed dividend on the preference shares is six months in arrears or where the business of a General Meeting includes the consideration of certain resolutions as defined in the Articles of Association relating to winding up, changes in the rights of preference shareholders or failure by the Company to redeem the preference shares by 6 April 2014.

Accounts

Notes to the Accounts (continued)

17 TRADE AND OTHER PAYABLES

Non-current liabilities

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Land payables	**31,475**	25,746	**–**	–
Other payables	**5,322**	4,782	**–**	–
Accrued expenses and deferred income	**1,070**	690	**–**	–
	37,867	31,218	**–**	–

Land payables of £21.367 million (2011 – £1.677 million) are secured on the land to which they relate.

The carrying value of the land used for security is £19.786 million (2011 – £1.453 million).

Current liabilities

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Trade payables	**76,291**	79,956	**–**	–
Land payables	**89,116**	57,461	**–**	–
Social security and other taxes	**2,634**	2,565	**–**	–
Other payables	**23,879**	27,449	**138**	273
Accrued expenses and deferred income	**47,691**	43,695	**746**	601
Payments on account	**32,931**	35,002	**–**	–
	272,542	246,128	**884**	874

Land payables of £38.055 million (2011 – £19.651 million) are secured on the land to which they relate.

The carrying value of the land used for security is £36.605 million (2011 – £19.009 million).

18 FINANCIAL RISK MANAGEMENT

The Group's financial instruments comprise cash, bank loans and overdrafts and various items such as trade receivables, other financial assets and trade payables that arise directly from its operations. The main objective of the Group's policy towards financial instruments is to maximise returns on the Group's cash balances, manage the Group's working capital requirements and finance the Group's ongoing operations.

The Company's only financial instruments are cash and preference shares.

Capital management

The Board's policy is to maintain a strong capital base to underpin the future development of the business in order to deliver value to shareholders. The Group finances its operations through retained earnings, bank borrowings and the management of working capital. From time to time, the trustees of the Bellway Employee Share Trust (1992) (the 'Trust') also purchase shares for the future satisfaction of employee share options.

Management of financial risk

The main risks associated with the Group's financial instruments have been identified as credit risk, liquidity risk and interest rate risk. The Board is responsible for managing these risks and the policies adopted, which have remained largely unchanged during the year, are set out below.

Credit risk

The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of legal completion of its sales.

There is no specific concentration of credit risk in respect of home sales as the exposure is spread over a number of customers. In respect of trade receivables and other financial assets, the amounts presented in the balance sheet are stated after adjusting for any doubtful receivables, based on the judgement of the Group's management through using both previous experience and knowledge of the current position (note 15). In managing risk the Group assesses the credit risk of its counterparties before entering into a transaction. No credit limits were exceeded during the reporting period or subsequently and the Group does not anticipate any losses from non-performance by these counterparties. In relation to land payables, certain payables are secured on the respective land asset held (note 17). No other security is held against any other financial assets of the Group.

The Board considers the Group's exposure to credit risk to be acceptable and normal for an entity of its size given the industry in which it operates.

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

The Group finances its operations through a mixture of equity (comprising share capital, reserves and retained earnings) and debt (comprising bank overdraft facilities and borrowings). The Group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on a two year rolling cash forecast.

The Group's banking arrangements outlined below are considered to be adequate in terms of flexibility and liquidity for its medium-term cash flow needs therefore mitigating the Group's liquidity risk.

Interest rate risk

Interest rate risk reflects the Group's exposure to fluctuations in interest rates in the market. The risk arises because the Group's overdraft and floating rate bank loans bear interest based on either LIBOR or the Bank of England base rate.

For the year ended 31 July 2012 it is estimated that an increase of 1% in interest rates applying for the full year would decrease the Group's profit before tax by £0.199 million (2011 – £0.057 million).

Housing market risk

The Group is affected by movements in UK house prices. These in turn are affected by factors such as credit availability, employment levels, interest rates, consumer confidence and supply of land with planning.

Whilst it is not possible for the Group to fully mitigate housing market risk on a national macroeconomic basis the Group does continually monitor its geographical spread within the UK, seeking to balance investment in areas offering the best immediate returns with a long-term spread of its operations throughout the UK to minimise the effect of local microeconomic fluctuations.

Land purchased on deferred terms

The Group sometimes acquires land on deferred payment terms. In accordance with IAS 39 'Financial Instruments: Recognition and Measurement', the deferred creditor is recorded at fair value being the price paid for the land discounted to present day. The difference between the nominal value and the initial fair value is amortised over the deferred term to finance expenses, increasing the land creditor to its full cash settlement value on the payment date.

The maturity profile of the total contracted cash payments in respect of amounts due on land creditors at the balance sheet date is as follows:

	Balance at 31 July £000	Total contracted cash payment £000	Within one year or on demand £000	1-2 years £000	2-5 years £000	More than 5 years £000
At 31 July 2012	**120,591**	**126,783**	**90,088**	**20,538**	**14,862**	**1,295**
At 31 July 2011	83,207	86,547	58,165	21,336	5,809	1,237

The maturity profile of the total contracted payments in respect of financial liabilities (excluding amounts due on land creditors shown separately above) is as follows:

	Balance at 31 July £000	Total contracted cash payment £000	Within one year or on demand £000	1-2 years £000	2-5 years £000	More than 5 years £000
Bank loans – floating rates	62,000	62,230	62,230	–	–	–
Preference shares	20,000	23,800	1,900	21,900	–	–
Trade and other payables	108,126	108,126	102,804	–	–	5,322
At 31 July 2012	**190,126**	**194,156**	**166,934**	**21,900**	**–**	**5,322**
Bank loans – floating rates	80,000	82,441	15,990	25,780	40,671	–
Preference shares	20,000	25,700	1,900	1,900	21,900	–
Trade and other payables	114,752	114,752	109,970	–	–	4,782
At 31 July 2011	214,752	222,893	127,860	27,680	62,571	4,782

The interest rates on the preference shares apply to the whole term of the relevant instruments.

The imputed interest rate on land payables reflects market interest rates available to the Group on floating rate bank loans at the time of acquiring the land.

At the year end, the Group had £238.0 million (2011 – £210.0 million) of undrawn bank facilities available.

The Company's only financial liabilities are preference shares as disclosed in the maturity profile above.

Accounts

Notes to the Accounts (continued)

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

Cash and cash equivalents

This comprises cash held by the Group and short-term bank deposits with a maturity date of less than one month.

The amounts of cash and cash equivalents for the years ended 31 July 2012 and 31 July 2011 for both the Group and the Company are shown in note 22.

At 31 July 2012 the average interest rate earned on the temporary closing cash balance was 0.72% (2011 – 1.08%).

The carrying amount of these assets approximates their fair value.

Fair values

Financial assets

The carrying values of financial assets are not materially different to their fair values.

Financial liabilities

A comparison of the book values and fair values of the Group's fixed rate preference shares and floating rate bank loans at 31 July is as follows:

	Book value 2012 £000	**Fair value 2012 £000**	Book value 2011 £000	Fair value 2011 £000
Preference shares – fixed rate	**20,000**	**21,600**	20,000	21,500
Bank loans – floating rate	**62,000**	**60,417**	80,000	76,503

The fair value of the fixed rate preference shares is based on quoted mid-market prices at 31 July.

In aggregate, the fair values of the Group's other financial assets and liabilities are not materially different from their book value.

Financial assets and liabilities by category

	Group 2012 £000	Group 2011 £000	**Company 2012 £000**	Company 2011 £000
Available for sale financial assets	**35,080**	33,491	**–**	–
Loans and receivables	**69,268**	59,912	**4**	3
Cash and cash equivalents	**21,413**	83,412	**48,745**	48,741
Financial liabilities at amortised cost	**(325,537)**	(309,795)	**(20,138)**	(20,273)
	(199,776)	(132,980)	**28,611**	28,471

19 ISSUED CAPITAL

Group and Company

	2012 Number 000	**2012 £000**	2011 Number 000	2011 £000
Allotted, called up and fully paid ordinary shares				
At 1 August 2011	**120,848**	**15,105**	120,832	15,103
Issued on exercise of options	**603**	**75**	16	2
At 31 July 2012	**121,451**	**15,180**	120,848	15,105

19 ISSUED CAPITAL (CONTINUED)

Share options
At 31 July 2012 all outstanding options to purchase ordinary shares in Bellway p.l.c., in accordance with the terms of the applicable schemes, were as follows:

Grant date	Number of shares	Exercise price (p)	Dates from which exercisable		Expiry date
(a) Bellway p.l.c. (1995) Employee Share Option Scheme					
13 May 2003	16,900	524.00	13 May 2006	to	12 May 2013
10 May 2004	2,500	712.50	10 May 2007	to	9 May 2014
17 November 2004	87,050	716.00	17 November 2007	to	16 November 2014
	106,450				
(b) Bellway p.l.c. (1996) Employee Share Option Scheme					
13 May 2003	3,850	524.00	13 May 2006	to	12 May 2013
24 October 2003	1,500	621.50	24 October 2006	to	23 October 2013
10 May 2004	3,500	712.50	10 May 2007	to	9 May 2014
17 November 2004	70,250	716.00	17 November 2007	to	16 November 2014
31 October 2005	226,550	844.00	31 October 2008	to	30 October 2015
16 May 2006	750	1,122.00	16 May 2009	to	15 May 2016
	306,400				
(c) Bellway p.l.c. (2005) Employee Share Option Scheme					
31 October 2005	78,950	844.00	31 October 2008	to	30 October 2015
7 February 2007	8,700	1,470.00	7 February 2010	to	6 February 2017
	87,650				
(d) Bellway p.l.c. (2007) Employee Share Option Scheme					
7 February 2007	18,300	1,470.00	7 February 2010	to	6 February 2017
	18,300				
(e) Bellway p.l.c. (2003) Savings Related Share Option Scheme					
14 November 2006	2,932	1,092.00	1 February 2012	to	31 July 2012
13 November 2007	2,851	847.20	1 February 2013	to	31 July 2013
13 November 2008	239,374	336.00	1 February 2014	to	31 July 2014
11 November 2009	32,168	661.60	1 February 2013	to	31 July 2013
11 November 2009	12,925	661.60	1 February 2015	to	31 July 2015
12 November 2010	125,127	439.60	1 February 2014	to	31 July 2014
12 November 2010	61,836	439.60	1 February 2016	to	31 July 2016
14 November 2011	316,888	556.00	1 February 2015	to	31 July 2015
14 November 2011	46,650	556.00	1 February 2017	to	31 July 2017
	840,751				
Total	**1,359,551**				

Details of directors' share options are contained within the Report of the Board on Directors' Remuneration on pages 39 to 47.

Accounts

Notes to the Accounts (continued)

20 RESERVES

Own shares held

The Group and Company holds shares within the Bellway Employee Share Trust (1992) (the 'Trust') for participants of certain share-based payment schemes as outlined in note 25. During the period the Trust made a market purchase of 175,803 (2011 – 100,000) shares at an average price of 728p (2011 – 559p) and transferred 241,887 (2011 – 95,473) shares to employees. The number of shares held within the Trust, and on which dividends have been waived, at 31 July 2012 was 38,443 (2011 – 104,527). These shares are held within the financial statements at a cost of £0.269 million (2011 – £0.584 million). The market value of these shares at 31 July 2012 was £0.309 million (2011 – £0.690 million).

Income statement

As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's loss for the financial year was £1.918 million (2011 – £1.905 million).

21 RECONCILIATION OF NET CASH FLOW TO NET (DEBT)/CASH

Group

	2012 £000	2011 £000
Decrease in net cash and cash equivalents	**(61,999)**	(62,277)
Decrease in bank borrowings	**18,000**	–
Increase/decrease in net debt/cash from cash flows	**(43,999)**	(62,277)
Net (debt)/cash at 1 August	**(16,588)**	45,689
Net debt at 31 July	**(60,587)**	(16,588)

Company

	2012 £000	2011 £000
Increase/(decrease) in net cash and cash equivalents	**4**	(115)
Net cash at 1 August	**28,741**	28,856
Net cash at 31 July	**28,745**	28,741

22 ANALYSIS OF NET (DEBT)/CASH

Group

	At 1 August 2011 £000	Cash flows £000	At 31 July 2012 £000
Cash and cash equivalents	83,412	(61,999)	**21,413**
Bank loans	(80,000)	18,000	**(62,000)**
Preference shares redeemable after more than one year	(20,000)	–	**(20,000)**
Net debt	(16,588)	(43,999)	**(60,587)**

Company

	At 1 August 2011 £000	Cash flows £000	At 31 July 2012 £000
Cash and cash equivalents	48,741	4	**48,745**
Preference shares redeemable after more than one year	(20,000)	–	**(20,000)**
Net cash	28,741	4	**28,745**

23 CONTINGENT LIABILITIES

The Company is liable, jointly and severally with other members of the Group, under guarantees given to the Group's bankers in respect of overdrawn balances on certain Group bank accounts and in respect of other overdrafts, loans and guarantees given by the banks to or on behalf of other Group undertakings. At 31 July 2012 there were bank overdrafts of £nil (2011 – £nil) and loans of £62.0 million (2011 – £80.0 million). The Company has given performance and other trade guarantees on behalf of subsidiary undertakings. The Company has guaranteed the overdrafts of jointly controlled entities up to a maximum of £7.5 million (2011 – £7.5 million). It is the director's expectation that the possibility of cash outflow on these liabilities is considered minimal and no provision is required.

24 COMMITMENTS

Group
Capital commitments

	2012 £000	2011 £000
Contracted not provided	**98**	161
Authorised not contracted	**–**	1,450

Operating leases
At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which expire as follows:

	2012 £000	2011 £000
Expiring within one year	**–**	88
Expiring within the second to fifth years	**2,114**	3,448
Expiring in more than five years	**1,205**	783
	3,319	4,319

Operating lease payments principally relate to rents payable by the Group for office premises. These leases are subject to periodic rent reviews.

Company
The commitments of the Company were £nil (2011 – £nil).

25 EMPLOYEE BENEFITS

(a) Retirement benefit obligations
The Group sponsors the Bellway p.l.c. 1972 Pension Scheme (the 'Scheme') which has a funded defined benefit arrangement which is closed to new members and to future service accrual. The last full actuarial valuation of the Scheme was carried out by a qualified independent actuary as at 1 August 2011 and updated on an approximate basis to 31 July 2012.

The Group also sponsors the Bellway plc 2008 Group Self Invested Personal Pension Plan ('GSIPP') which is a defined contribution contract-based arrangement.

Contributions of £2.120 million (2011 – £1.919 million) were charged to the income statement for the GSIPP.

With regard to the Scheme, the regular contributions made by the employer over the financial year were £nil (2011 – £nil). The employer also paid special contributions amounting to £1.2 million (2011 – £nil). Expenses were paid in addition.

It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside the income statement and in the statement of comprehensive income.

Insured pensions and defined contributions have been excluded from the assets and liabilities.

Present values of defined benefit obligations, fair value of Scheme assets and deficit:

	2012 £000	2011 £000
Present value defined benefit obligation	**(47,317)**	(44,246)
Fair value of Scheme assets	**35,816**	35,845
Deficit in Scheme	**(11,501)**	(8,401)

As all actuarial gains and assets are recognised, the deficits shown above are those recognised in the balance sheet.

Accounts

Notes to the Accounts (continued)

25 EMPLOYEE BENEFITS (CONTINUED)

Best estimate of contributions to be paid to the Scheme for the year ended 31 July 2013
The best estimate of contributions to be paid to the Scheme for the year ending 31 July 2013 is £1.2 million (2012 – £nil).

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

	2012 £000	2011 £000
Defined benefit obligation at start of year	**44,246**	41,896
Interest cost	**2,312**	2,200
Actuarial loss	**2,259**	1,713
Benefit paid, death in service insurance premiums and expenses	**(1,500)**	(1,563)
Defined benefit obligation at end of year	**47,317**	44,246

Reconciliation of opening and closing balances of the fair value of Scheme assets:

	2012 £000	2011 £000
Fair value of assets at start of year	**35,845**	33,160
Expected return on assets	**1,857**	1,774
Actuarial (losses)/gains	**(1,586)**	2,474
Contributions by employer	**1,200**	–
Benefit paid, death in service insurance premiums and expenses	**(1,500)**	(1,563)
Fair value of assets at end of year	**35,816**	35,845

Total expense recognised in the income statement:

	2012 £000	2011 £000
Interest on liabilities	**2,312**	2,200
Expected return on assets	**(1,857)**	(1,774)
Total expense	**455**	426

Total expense of £0.455 million (2011 – £0.426 million) is recognised within finance expenses.

Gains/(losses) recognised in the statement of comprehensive income:

	2012 £000	2011 £000	2012 %	2011 %	
Difference between expected and actual return on Scheme assets	**(1,586)**	2,474	**(4)**	7	of Scheme assets
Experience gains and losses arising on the Scheme liabilities	**(543)**	(72)	**1**	0	of the present value of Scheme liabilities
Effects of changes in the demographic and financial assumptions underlying the present value of the Scheme liabilities	**(1,716)**	(1,641)	**4**	4	of the present value of Scheme liabilities
Total (loss)/gain recognised in the statement of comprehensive income	**(3,845)**	761	**8**	(2)	of the present value of Scheme liabilities

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since adoption of IAS 19 'Employee Benefits' is a loss of £17.2 million.

25 EMPLOYEE BENEFITS (CONTINUED)

Assets

The fair value of Scheme assets is:

	2012 £000	2011 £000
Equities	**20,675**	23,686
Bonds	**12,182**	12,001
Cash	**2,959**	158
Total	**35,816**	35,845

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

Expected long-term rates of return

The expected long-term return on cash is related to bank base rates at the balance sheet date. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities has been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date.

The expected long-term rates of return are as follows:

	Period commencing 1 August 2011 % per annum	Period commencing 1 August 2010 % per annum
Equities	**5.40**	5.70
Bonds	**5.00**	5.10
Cash	**3.90**	4.20
Overall for Scheme	**5.26**	5.48

Actual return on Scheme assets

The actual return on the Scheme assets over the year ended 31 July 2012 was 0.8% (31 July 2011 – 12.8%).

Assumptions

	2012 % per annum	2011 % per annum
Inflation	**2.85**	3.75
Salary increases	**3.35**	4.75
Rate of discount	**4.20**	5.30
Allowance for pension in payment increases of RPI or 5% p.a. if less	**2.85**	3.75
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	**2.15**	3.05
Allowance for commutation of pension for cash at retirement	**50% of maximum**	–

The mortality assumptions adopted at 31 July 2012 are based on the S1PA tables and allow for future improvement in mortality. The tables used imply the following life expectancies at age 65:

Male retiring at age 65 in 2012	23.4 years
Female retiring at age 65 in 2012	25.5 years
Male retiring at age 65 in 2032	25.7 years
Female retiring at age 65 in 2032	27.9 years

Accounts

Notes to the Accounts (continued)

25 EMPLOYEE BENEFITS (CONTINUED)

Following the formal valuation of the Scheme by the Trustees in the year the mortality assumption has been revised from the PA00 tables using long cohort improvements to the S1PA base table with an allowance for future improvement in mortality. The directors believe it is appropriate to use the same mortality assumption as used by the Trustees.

Amounts for the current and previous four years

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Fair value of assets	**35,816**	35,845	33,160	27,945	34,763
Defined benefit obligation	**(47,317)**	(44,246)	(41,896)	(39,870)	(47,472)
Deficit in Scheme	**(11,501)**	(8,401)	(8,736)	(11,925)	(12,709)
Experience adjustment on Scheme liabilities	**(543)**	(72)	813	5,351	(1,001)
Experience adjustment on Scheme assets	**(1,586)**	2,474	2,878	(3,997)	(6,248)
Effects of changes in the demographic and financial assumptions underlying the present value of the Scheme liabilities	**(1,716)**	(1,641)	(1,800)	(1,001)	(7,102)

(b) Share-based payments

The Group operates a long-term incentive plan ('LTIP'), an annual bonus scheme, employee share option schemes ('ESOS') and Savings Related Share Option Schemes ('SRSOS'), all of which are detailed below. IFRS 2 has been applied to options granted after 7 November 2002, which had not vested at 1 January 2005.

Awards under the LTIP have been made to executive directors and the Group Company Secretary, with awards under the annual bonus scheme also made to senior employees. The awards take the form of ordinary shares in the Company.

Share options issued under the Bellway p.l.c. (1995) Employee Share Option Scheme ('1995 ESOS') have been granted to employees at all levels as well as to executive directors. The last tranche of share options was awarded to directors in October 2003. No further options may be granted under this scheme. Options issued under the Bellway p.l.c. (1996) Employee Share Option Scheme ('1996 ESOS') have been granted to employees at all levels as well as to executive directors. The last tranche of share options was awarded to employees in May 2006. No further options may be granted under this scheme. The Bellway p.l.c. (2005) Employee Share Option Scheme ('2005 ESOS') replaces the 1995 ESOS. Awards may be granted on a discretionary basis to employees at all levels as well as to executive directors and are subject to performance conditions. The Bellway p.l.c. (2007) Employee Share Option Scheme ('2007 ESOS') replaces the 1996 ESOS. It is an unapproved discretionary scheme which provides for the grant of options over ordinary shares to employees and executive directors. It is, however, the current intention that no executive directors of the Company should be granted options under these schemes. Awards will be available to vest after three years, subject to objective performance targets.

Options issued under the SRSOS are offered to all employees including the executive directors.

An outline of the performance conditions in relation to the LTIP is detailed under the long-term incentive scheme section on pages 41, 42 and 45 within the Report of the Board on Directors' Remuneration.

Various small share option awards were made for years 2003 through to 2007 to employees, mainly at divisional management level, under the term of the Deferred Bonus Plan ('DBP'). These shares are held in the Bellway Employee Share Trust (1992) normally for three years. The shares can then be transferred into the employee's name.

Share-based payments have been valued by an external third party using various models detailed overleaf, based on publicly available market data at the time of the grant, which the directors consider to be the most appropriate method of determining their fair value.

25 EMPLOYEE BENEFITS (CONTINUED)

The number and weighted average exercise price of share-based payments is as follows:

LTIP and DBP

	2012 Number of options	2011 Number of options
Outstanding at the beginning of the year	**657,851**	620,587
Granted during the year	**141,257**	255,447
Exercised during the year	**(241,887)**	(95,473)
Lapsed during the year	**(190,736)**	(91,490)
Forfeited during the year	**(36,421)**	(31,220)
Outstanding at the end of the year	**330,064**	657,851
Exercisable at the end of the year	**1,000**	8,032

The options outstanding at 31 July 2012 have a weighted average contractual life of 1.7 years (2011 – 1.2 years). The weighted average share price at the date of exercise for share options exercised during the year was 748.6p (2011 – 658.7p).

1995, 1996, 2005 and 2007 ESOSs, and SRSOS

	2012 Number of options	2011 Number of options
Outstanding at the beginning of the year	**1,697,117**	1,682,152
Granted during the year	**387,351**	227,465
Lapsed during the year	**(80,751)**	(150,291)
Forfeited during the year	**(41,500)**	(46,000)
Exercised during the year	**(602,666)**	(16,209)
Outstanding at the end of the year	**1,359,551**	1,697,117
Exercisable at the end of the year	**521,732**	613,124

The options outstanding at 31 July 2012 have an exercise price in the range of 336.0p to 1,470.0p (2011 – 336.0p to 1,470.0p) and have a weighted average contractual life of 2.8 years (2011 – 2.7 years). The weighted average share price at the date of exercise for share options exercised during the year was 775.3p (2011 – 675.6p).

Valuation methodology

For the LTIP options granted prior to 24 October 2011, a Monte Carlo simulation method was used which allows the Group's performance, in terms of TSR, to be measured against its comparator companies. Individual share price volatilities were calculated for each of the comparator companies. A correlation assumption, appropriate to the building sector, was also used. For options granted on 24 October 2011 half of the performance criteria is based on TSR against comparator companies with the other half based on TSR measured against the FTSE 250 Index (excluding investment trusts and financial service companies). A simplified Monte Carlo simulation method has been used to determine the Group's TSR performance against the FTSE 250 Index (excluding investment trusts and financial service companies).

In the case of the DBP, a simplified Black Scholes method is applied with an exercise price and dividend yield of zero. This is because no performance conditions attach to the award and no dividends are credited to the individual. The result is that the fair value equates to the face value of the award.

The Black Scholes method is used for the SRSOS due to the relatively short exercise window of six months.

Accounts

Notes to the Accounts (continued)

25 EMPLOYEE BENEFITS (CONTINUED)

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The inputs into the models for the various grants in the current and previous year were as follows:

	2012			2011		
	November 2011	**November 2011**	**October 2011**	November 2010	November 2010	October 2010
Scheme description	**3 Year SRSOS**	**5 Year SRSOS**	**LTIP**	3 Year SRSOS	5 Year SRSOS	LTIP
Grant date	**14 Nov 11**	**14 Nov 11**	**24 Oct 11**	12 Nov 10	12 Nov 10	21 Oct 10
Risk free interest rate	**0.8%**	**1.3%**	**0.0%**	1.4%	2.1%	0.0%
Exercise price	**556.0p**	**556.0p**	**–**	439.6p	439.6p	–
Share price at date of grant	**713.5p**	**713.5p**	**700.5p**	538.5p	538.5p	549.5p
Expected dividend yield	**3.00%**	**3.00%**	**3.00%**	3.00%	3.00%	3.00%
Expected life	**3 years 2 months**	**5 years 2 months**	**3 years**	3 years 2 months	5 years 2 months	3 years
Vesting date	**1 Feb 15**	**1 Feb 17**	**24 Oct 14**	1 Feb 14	1 Feb 16	21 Oct 13
Expected volatility	**35%**	**45%**	**40%**	55%	45%	55%
Fair value of option	**704p**	**133p**	**267p**	212p	205p	213p

The expected volatility for all models was determined by considering the volatility levels historically for the Group. Volatility levels for more recent years were considered to have more relevance than earlier years for the period reviewed.

The Group recognised total expenses of £1.046 million (2011 – £0.957 million) in relation to equity-settled share-based payment transactions.

26 RELATED PARTY TRANSACTIONS

The Board and certain members of senior management are related parties within the definition of IAS 24 'Related Party Disclosures'. Summary information of the transactions with key management personnel is provided in note 3. Detailed disclosure of individual remuneration of Board members is included in the Report of the Board on Directors' Remuneration on pages 39 to 47. There is no difference between transactions with key management personnel of the Company and the Group.

Transactions between fellow subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Group

During the year the Group entered into the following related party transactions with its jointly controlled entities:

	2012 £000	2011 £000
Invoiced to jointly controlled entities in respect of accounting, management fees, interest on loans, land purchases and infrastructure works	**1,282**	1,310
Invoiced from jointly controlled entities in respect of fees, land purchases and infrastructure works	**(3,376)**	(2,988)
Amounts owed to jointly controlled entities in respect of land purchases and management fees at the year end	**(726)**	(646)
Amounts owed by jointly controlled entities in respect of accounting, management fees, interest, land purchases and infrastructure works at the year end	**38,794**	36,763

26 RELATED PARTY TRANSACTIONS (CONTINUED)

Company
During the year the Company entered into the following related party transactions with its subsidiaries and jointly controlled entities:

	2012 £000	2011 £000
Amounts received in the year from subsidiaries in respect of dividends and shares issued	**93**	230
Amounts paid in the year by subsidiaries on behalf of the Company in respect of dividends and finance expenses	**(19,790)**	(15,014)
Amounts owed by subsidiaries in respect of dividends and shares issued net of amounts paid on behalf of the Company at the year end	**649,495**	668,389
Investments in subsidiaries and jointly controlled entities at the year end	**30,163**	29,117

The Company has suffered no expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2011 – £nil).

27 PRINCIPAL SUBSIDIARY UNDERTAKINGS

The directors set out below information relating to the major subsidiary undertakings (those that principally affect the profits and assets of the Group) of Bellway p.l.c. taking advantage of the exemption in section 410 of the Companies Act 2006 not to disclose all subsidiary undertakings. All of these companies are registered in England and Wales, are engaged in housebuilding and associated activities, have coterminous year ends with the Group, and 100% of their ordinary share capital is held by the Company (unless otherwise stated).

Bellway Homes Limited
Bellway Properties Limited
Bellway (Services) Limited
Litrose Investments Limited
Bellway Financial Services Limited
Bellway Housing Trust Limited
The Victoria Dock Company Limited (60% owned)*

*These shares are held indirectly.

Other Information

Five Year Record

	2008 £m	2009 £m	2010 £m	2011 £m	**2012 £m**
Income statement					
Revenue	1,149.5	683.8	768.3	886.1	**1,004.2**
Operating profit	185.1*	45.6*	51.3	75.2	**114.6**
Exceptional items	(130.9)	(66.3)	–	–	**–**
Net finance expenses	(19.1)	(15.8)	(6.9)	(8.0)	**(9.3)**
Share of losses of associates	(0.3)	–	–	–	**–**
Profit/(loss) before taxation	34.8	(36.5)	44.4	67.2	**105.3**
Income tax (expense)/credit	(7.8)	9.1	(8.6)	(17.0)	**(26.0)**
Profit/(loss) for the year (all attributable to equity holders of the parent)	27.0	(27.4)	35.8	50.2	**79.3**
Balance sheet					
ASSETS					
Non-current assets	29.3	43.8	52.3	55.1	**59.4**
Current assets	1,667.7	1,306.2	1,340.2	1,415.9	**1,492.4**
LIABILITIES					
Non-current liabilities	(359.0)	(138.8)	(129.2)	(124.7)	**(69.4)**
Current liabilities	(336.9)	(246.2)	(228.5)	(273.0)	**(349.3)**
EQUITY					
Total equity	1,001.1	965.0	1,034.8	1,073.3	**1,133.1**

Statistics					
Dividend per ordinary share	24.1p	9.0p	10.0p	12.5p	**20.0p**
Basic earnings/(loss) per ordinary share	23.6p	(23.9)p	29.7p	41.5p	**65.5p**
Number of homes sold	6,556	4,380	4,595	4,922	**5,226**
Average price of new homes	£169.9k	£154.0k	£163.2k	£175.6k	**£186.6k**
Operating margin	16.1%*	6.7%*	6.7%	8.5%	**11.4%**
Net assets per ordinary share	871p	839p	856p	888p	**933p**
Land portfolio – plots with planning permission	22,500	19,260	17,602	18,086	**17,636**
Weighted average no. of ordinary shares	114,615,661	114,949,883	120,619,800	120,705,397	**121,036,846**
No. of ordinary shares in issue at end of year	114,950,915	115,006,480	120,831,922	120,848,131	**121,450,797**

* Stated before exceptional items.

Other Information
Shareholder Information

ANNUAL GENERAL MEETING ('AGM')

This section is important. If you are in any doubt as to what action to take you should consult an appropriate independent financial adviser.

If you have sold or transferred all of your shares in Bellway p.l.c. you should pass this document and all accompanying documents to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

SPECIAL BUSINESS

Five resolutions will be proposed as special business at the forthcoming AGM. The effect of these resolutions is as follows:

Resolution 12 – Adoption of a new Savings Related Share Option Scheme
This resolution, which will be proposed as an ordinary resolution, seeks shareholders' approval for the introduction of a new HM Revenue and Customs approved save-as-you-earn share option scheme to replace the existing plan, the Bellway p.l.c. (2003) Savings-Related Share Option Scheme, under which further options cannot be granted after 9 January 2013. A summary of the principal details of the new 2013 Savings Related Share Option Scheme (the 'Scheme') is set out on page 82. A copy of the draft rules of the Scheme will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company and at the offices of Dickinson Dees LLP, Gate House, 1 Farringdon Street, London EC4M 7LG from the date of publication of this notice up to and including the date of the AGM and also for fifteen minutes prior to the AGM until the close of the AGM.

Resolution 13 – Authority to directors to issue shares
This is an ordinary resolution which authorises the directors to allot ordinary shares up to an aggregate nominal value of £5,061,300, which is equivalent to approximately one-third of the Company's issued ordinary share capital as at 15 October 2012, and also gives the directors authority to allot, by way of rights issue only, ordinary shares up to an aggregate nominal value of £10,122,600 which is equivalent to approximately two-thirds of the Company's issued ordinary share capital as at 15 October 2012, such authority, if granted, to expire at the conclusion of the next AGM of the Company. As at 15 October 2012 the Company held no shares as treasury shares. At present, the directors only intend to use this authority to satisfy the exercise of awards under the Company's share schemes. The directors wish to obtain the necessary authority from shareholders so that allotments can be made (if required and if suitable market conditions arise) at short notice and without the need to convene a general meeting of the Company which would be both costly and time consuming.

Resolution 14 – Disapplication of pre-emption rights
This is a special resolution and is the customary annual request, in substitution for the authority granted to the directors by shareholders on 13 January 2012 which expires at the conclusion of the forthcoming AGM, that shareholders empower the directors to allot ordinary shares for cash without first offering them pro rata to existing shareholders as would otherwise be required by section 561 of the Companies Act 2006 (a) in connection with a rights issue or other pre-emptive offer and (b) (otherwise than in connection with a rights issue or other pre-emptive offer) up to an aggregate nominal value of £759,195, being approximately equal to 5% of the issued ordinary share capital of the Company as at 15 October 2012.

Resolution 15 – Company's purchase of its own shares
The Company's authority to purchase its own ordinary and preference shares, given at the last AGM, expires at the conclusion of the forthcoming AGM. This authority was not used during the year. The directors propose, as a special resolution, that it should be renewed for a further year to expire on the date of the next AGM.

The directors will review opportunities to use this authority in light of stock market conditions and trading opportunities during the year.

The directors will only make purchases (which will reduce the number of shares in issue) after paying due attention to the effect on the financing of the Group, its assets and earnings per share for the remaining shareholders. Any shares purchased under this authority may be cancelled (in which case the number of shares in issue will be reduced accordingly) or may be held in treasury.

Resolution 16 – Length of notice of meeting
Shareholder approval for general meetings of the Company other than AGMs to be held on 14 days' notice, given at the last AGM, expires at the conclusion of the forthcoming AGM. There is no current intention to use this authority and the Company will only consider using this authority where it is considered that this would be for the benefit of shareholders as a whole. The directors propose, as a special resolution, that it should be renewed for a further year to expire on the date of the next AGM.

Recommendation
Your directors consider each of the resolutions set out in the Notice of AGM to be in the best interests of the Company and its shareholders as a whole. Accordingly, they unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial shareholdings.

Other Information

Shareholder Information (continued)

SUMMARY OF THE PRINCIPAL DETAILS OF THE BELLWAY P.L.C. (2013) SAVINGS RELATED SHARE OPTION SCHEME (THE 'SCHEME')

1. Eligibility

All employees and full time directors of the Company and any participating subsidiaries who have been employed for a minimum period determined by the Board of directors of the Company shall be invited to participate in the Scheme. Invitations may be made within the six-month period following approval of the Scheme by HM Revenue and Customs and thereafter, normally, in each year during the period of 42 days following the announcement of the Company's interim or final results. Invitations may not be made more than 10 years after the date of adoption of the Scheme by the Company.

Invitees will be given not less than 14 days in which to decide whether to accept the invitation and, if they choose to accept the invitation, to decide how much per month they wish to save (which shall be not less than £5, nor more than £250, per month) under a savings arrangement which they will be required to take out at the same time as the option is granted to them.

2. Grant of options

Where invitations are accepted, options will be granted (by the Company) not later than 30 days after the date of the invitations (or not later than 42 days after that date, if the invitation is over-subscribed (see paragraph 3 below)). No consideration shall be payable for the grant of an option. Options may not be transferred.

3. Oversubscription

The rules of the Scheme set out steps for scaling down applications in the event that an invitation is oversubscribed.

4. Exercise price

The price at which participants may acquire ordinary shares will be not less than 80% of their middle market price quoted on the Daily Official List of the London Stock Exchange plc at close of dealings on the day immediately preceding the invitation date.

5. Limit on share capital

No option may be granted to any participant which would cause the number of ordinary shares issued or remaining issuable by virtue of options or other rights granted in the preceding 10 years under the Scheme or any other employee share scheme established by the Company to exceed 10% of the issued share capital at that time.

6. Exercise, lapse and exchange of options

Options will normally be exercisable during the period of six months following the bonus date of the savings arrangement taken out by participants at the time options are granted.

Options normally lapse on cessation of employment. However, exercise is permitted for a limited period following cessation of employment for specified "good leaver" reasons. Exercise is also permitted on an amalgamation or takeover of the Company.

The number of ordinary shares which participants can acquire on exercise of their options cannot exceed the amount in cash terms that they have saved under their contract, together with any bonus or interest payable.

7. Adjustments

With the prior approval of HM Revenue and Customs, the number of shares comprised in an option and/or its exercise price may be adjusted if any capitalisation issue, offer by way of rights or any sub-division, reduction, consolidation or other variation of the Company's share capital takes place.

8. Rights attaching to shares

The ordinary shares which are to be transferred or allotted and issued to a participant pursuant to the exercise of options will rank pari passu with all other issued ordinary shares, except for any rights determined by reference to a date preceding the date on which the option is exercised.

9. Amendments and general

The Board of directors of the Company may at any time amend the rules of the Scheme provided that, in the case of amendments to the material advantage of participants relating to eligibility, limits on participation, the basis of determining a participant's entitlement in the event of a variation of the Company's share capital and certain other amendments, the prior approval of the Company in general meeting has been obtained. Such prior approval will not, however, be required for amendments made to obtain or maintain the approval of HM Revenue and Customs or to comply with the provisions of any existing or proposed legislation or to maintain favourable taxation treatment of any participating company or any participant. No amendments shall have effect without the prior approval of HM Revenue and Customs. Benefits provided are not pensionable.

TAKEOVERS DIRECTIVE

Where not provided in the Directors' Report the following sets out the information required to be provided to shareholders in compliance with the Takeovers Directive.

Share capital
The Company's total issued ordinary and preference share capital as at 31 July 2012 consisted of 121,450,797 ordinary shares of 12.5p each (representing 43% of the Company's total issued share capital) and 20,000,000 9.5% Cumulative Redeemable Preference Shares 2014 of £1 each (representing 57% of the Company's total issued share capital). Further details of the issued capital of the Company and brief details of the rights in relation to the preference shares can be found in note 16 to the accounts. The rights and obligations attaching to the ordinary and preference shares in the Company are set out in the Articles of Association (the 'Articles'). Copies of the Articles can be obtained from Companies House or by writing to the Group Company Secretary at the Company's registered office.

Restrictions on the transfer of shares
The restrictions on the transfer of shares are set out in the Articles. In addition, in compliance with the FSA Listing Rules, Company approval is required for directors, certain employees and their connected persons to deal in the Company's ordinary shares. No person has special rights of control over the Company's share capital.

Rights in relation to the shares held in the employee benefit trust
The voting rights on shares held in the Trust in relation to the Company's employee share schemes are exercisable by the trustees.

Restrictions on voting rights
Details of the deadlines for exercising voting rights are set out in the Company's Articles. The directors are not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

Appointment and replacement of directors
The Company's rules about the appointment and replacement of directors are set out in the Articles and are summarised in the Directors' Report on page 33. In accordance with the UK Corporate Governance Code all the directors are seeking annual re-election by shareholders, apart from Howard Dawe, who retires from the Board on 31 January 2013.

Amendments to the Company's Articles of Association
The Company may amend its Articles by passing a special resolution at a general meeting of its shareholders.

Powers of the Board
The business and affairs of the Company are managed by the directors, who may exercise all such powers of the Company as are not by law or by the Articles required to be exercised by the Company in general meetings. Subject to the provisions of the Articles, all powers of the directors are exercised at meetings of the directors which have been validly convened and at which a quorum is present.

Allotment of shares
During the year 602,666 new ordinary shares were issued to satisfy awards made under the Company's employee share schemes. The directors have authority to allot shares within limits agreed by shareholders. Details of the renewal of this authority are set out on page 81, and Resolutions 13 and 14 in the Notice of Meeting of the AGM to be held on 11 January 2013 on pages 86 and 87 seek to renew this authority.

Purchase of own shares
The Company has not purchased any of its own shares during the year. The directors have authority to purchase the Company's own shares within limits agreed by shareholders. Details of the renewal of this authority are set out on page 81, and Resolution 15 in the Notice of Meeting of the AGM to be held on 11 January 2013 on page 87 seeks to renew this authority.

Significant agreements – change of control provisions
The Company is party to a number of banking agreements which may be terminable in the event of a change of control of the Company.

Agreements for compensation for loss of office following a change of control
The service agreements between the Company and Mr Watson and the Group Company Secretary contain provisions that entitle the individual to terminate the agreement following a takeover offer and receive an amount equivalent to one year's salary, benefits and the average amount of the last two years' annual bonus payment.

Other Information

Shareholder Information (continued)

FINANCIAL CALENDAR

Announcement of results and ordinary dividends	
Half year	March
Full year	October
Ordinary share dividend payments	
Interim	July
Final	January
Preference share dividend payments at the rate of 9.5% per annum paid half yearly	April and October
Annual report posted to shareholders	November
Final ordinary dividend – ex-dividend date	12 December 2012
Final ordinary dividend – record date	14 December 2012
AGM	11 January 2013
Final ordinary dividend – payment date	16 January 2013

ORDINARY SHAREHOLDERS BY SIZE OF HOLDING AT 31 JULY 2012

	Holdings		Shares	
	Number	%	Holding	%
0 – 2,000	**1,727**	**69.64**	**1,123,272**	**0.92**
2,001 – 10,000	**423**	**17.06**	**1,783,724**	**1.47**
10,001 – 50,000	**137**	**5.52**	**3,336,640**	**2.75**
50,001 and over	**193**	**7.78**	**115,207,161**	**94.86**
Total	**2,480**	**100.00**	**121,450,797**	**100.00**

DIVIDEND RE-INVESTMENT PLAN ('DRIP')

Shareholders may agree to participate in the Company's DRIP to receive dividends in the form of shares in Bellway p.l.c. instead of in cash. For further information please e-mail Capita Registrars Limited at shares@capitaregistrars.com or telephone 0871 664 0300 – calls cost 10p per minute plus network extras. If calling from overseas please call +44 208 639 3399. Lines are open from 8.30 am to 5.30 pm on Monday to Friday (excluding Bank Holidays).

NON-STERLING BANK ACCOUNT

If you reside outside the UK, or have a non-sterling bank account, Capita Registrars can now convert your dividend into your local currency and send you the funds by currency draft, or they may be able to pay them straight into your overseas bank account. For further information on Capita's International Payment Service e-mail Capita Registrars Limited at IPS@capitaregistrars.com or telephone +44 208 639 3405. Lines are open from 9.00 am to 5.30 pm London time on Monday to Friday (excluding Bank Holidays).

SHARE DEALING SERVICE

The Company's registrars, Capita Registrars Limited, provide a share dealing service to existing shareholders to buy or sell the Company's shares. Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact: www.capitadeal.com for online dealing, or telephone 0871 664 0364 for telephone dealing.

Please note that the directors of the Company are not seeking to encourage shareholders to either buy or sell their shares in the Company. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser, authorised under the terms of the Financial Services and Markets Act 2000.

DISCOUNT TO SHAREHOLDERS

The following discount arrangement is currently available to shareholders.

Should you intend to purchase a new Bellway home, you will be entitled to a discount of £2,000 per £25,000, or pro rata on part thereof, of the purchase price provided that:

(a) you have been the registered holder of at least 2,000 ordinary shares for a minimum period of 12 months prior to the reservation of your new home; and

(b) you inform our sales representative on-site when reserving your property that you are claiming shareholder discount.

The above discount arrangement is only available to shareholders on the Company's Register of Members. Employees of investing companies or members of investing institutions would not therefore be eligible. Underlying beneficial shareholders would be entitled to benefit from the arrangements.

For further details please contact the Group Company Secretary, Bellway p.l.c., Seaton Burn House, Dudley Lane, Seaton Burn, Newcastle upon Tyne NE13 6BE, telephone 0191 217 0717 or e-mail investor.relations@bellway.co.uk.

BENEFICIAL OWNERS OF SHARES WITH 'INFORMATION RIGHTS'

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars Limited, or to the Company directly.

CORPORATE RESPONSIBILITY REPORTING

Further reporting on the Company's Corporate Responsibility activities is available to view in the Corporate Responsibility section of the Group's website www.bellway.co.uk.

Other Information

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at The Newcastle Marriott Hotel Gosforth Park, High Gosforth Park, Newcastle upon Tyne, NE3 5HN on Friday 11 January 2013 at 12.00 noon for the following purposes:

ORDINARY BUSINESS

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. THAT the Accounts for the financial year ended 31 July 2012 and the Directors' Report and the Auditor's Report on those Accounts and the auditable part of the Report of the Board on Directors' Remuneration be received and adopted.
2. THAT a final dividend for the year ended 31 July 2012 of 14.0p per ordinary 12.5p share, as recommended by the directors, be declared.
3. THAT Mr J K Watson be re-elected as a director of the Company.
4. THAT Mr E F Ayres be re-elected as a director of the Company.
5. THAT Mr K D Adey be re-elected as a director of the Company.
6. THAT Mr P M Johnson be re-elected as a director of the Company.
7. THAT Mr M R Toms be re-elected as a director of the Company.
8. THAT Mr J A Cuthbert be re-elected as a director of the Company.
9. THAT KPMG Audit Plc be re-appointed as the auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which Accounts are laid before the Company.
10. THAT the directors are authorised to agree the remuneration of the auditor of the Company.
11. THAT the Report of the Board on Directors' Remuneration shown on pages 39 to 47 of the Annual Report and Accounts for the year ended 31 July 2012 be approved.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

12. THAT the Bellway p.l.c. (2013) Savings Related Share Option Scheme (the 'Scheme'), the draft rules of which were produced to the meeting and for the purpose of identification initialled by the Chairman and a summary of which is set out under Shareholder Information on page 82 of the Annual Report and Accounts for the year ended 31 July 2012, be and is hereby approved and adopted (subject to such modifications, if any, as the directors consider necessary or appropriate to obtain the approval thereto of HM Revenue and Customs under the provisions of the Income Tax (Earnings and Pensions) Act 2003 and to comply with the requirements of the Listing Rules or the London Stock Exchange) and that the directors be and are hereby authorised to do all acts and things as they may consider appropriate or expedient to implement the Scheme.
13. THAT the directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to:

(a) allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('Rights') up to a maximum nominal amount of £5,061,300; and

(b) allot equity securities (within the meaning of section 560 of the Act) up to a maximum nominal amount of £10,122,600 (such amount to be reduced by the nominal amount of any shares issued or in respect of which Rights are granted under (a) above) in connection with an offer by way of a rights issue to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, provided that:

  (i) this authority shall expire at the conclusion of the next annual general meeting of the Company, but may be previously revoked or varied by an ordinary resolution of the Company; and

  (ii) this authority shall permit and enable the Company to make offers or agreements before the expiry of this authority which would or might require shares to be allotted or Rights to be granted after such expiry and the directors shall be entitled to allot shares and grant Rights pursuant to any such offers or agreements as if this authority had not expired; and

  (iii) all unexercised authorities previously granted to the directors to allot shares and grant Rights be and are hereby revoked.

To consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions:

14. THAT,

(a) subject to resolution 13 above being passed as an ordinary resolution, the directors be empowered pursuant to section 570 and section 573 of the Companies Act 2006 ('the Act') to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority so conferred or by way of sale of treasury shares in each case as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(i) the allotment of equity securities in connection with a pre-emptive offer (but in the case of the authority conferred under paragraph (b) of resolution 13 in connection with an offer by way of rights issue only); and

(ii) the allotment to any person or persons (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal amount of £759,195;

(b) the power given by this resolution shall expire at the conclusion of the next annual general meeting of the Company except that the Company may, before such expiry, make an offer or agreement which would, or might, require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such an offer or agreement as if the power conferred by this resolution had not expired; and

(c) for the purposes of this resolution, 'pre-emptive offer' means a rights issue, open offer or other offer of equity securities open for acceptance for a fixed period, by the directors to ordinary shareholders of the Company on the Register on a fixed record date in proportion (as nearly as may be) to their then holdings of such equity securities (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in, any overseas territory or fractional entitlements or any other matter whatsoever).

15. THAT the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 ('the Act') to purchase ordinary shares and preference shares in the capital of the Company by way of one or more market purchases (within the meaning of section 693 of the Act) on the London Stock Exchange upon, and subject to the following conditions:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 12,147,120, being approximately 10 per cent of the ordinary shares in issue;

(b) the maximum number of preference shares hereby authorised to be purchased is 20,000,000 9.5% Cumulative Redeemable Preference Shares 2014 of £1 each, being the total amount of preference shares in issue;

(c) the maximum price at which ordinary shares may be purchased is an amount equal to 105 per cent of the average of the middle market quotations derived from the London Stock Exchange Official List for the five business days immediately preceding the date on which the ordinary shares are contracted to be purchased and the minimum price is 12.5p per share, in both cases exclusive of expenses;

(d) the maximum price at which preference shares may be purchased shall be an amount calculated in accordance with the provisions contained in the Articles of Association of the Company and the minimum price is £1 per share; and

(e) unless previously renewed, varied or revoked, the authority to purchase conferred by this resolution shall expire at the conclusion of the next annual general meeting of the Company or, if earlier, 15 months after the passing of this resolution provided that any contract for the purchase of any shares, as aforesaid, which was concluded before the expiry of the said authority may be executed wholly or partly after the said authority expires and the relevant shares purchased pursuant thereto.

16. THAT a general meeting of the Company, other than an annual general meeting of the Company, may be called on not less than 14 clear days' notice.

Other Information

Notice of Annual General Meeting (continued)

Notes:

(i) A member entitled to attend and vote at the meeting convened by the above notice may appoint one or more proxies to attend and speak and vote instead of him/her, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.

(ii) A form of proxy is enclosed separately. Completion and return of the form of proxy will not preclude shareholders from attending in person and voting at the meeting.

(iii) CREST members will be able to cast their vote using CREST electronic proxy voting using the procedures described in the CREST Manual (available via www.euroclear.com/CREST). In order to be valid, the Company's registrars must receive CREST Proxy Instructions not less than 48 hours before the time of the meeting or any adjourned meeting.

(iv) The above statement as to proxy rights contained in note (i) above does not apply to a person who receives this notice of general meeting as a person nominated to enjoy 'information rights' under section 146 of the Companies Act 2006. If you have been sent this notice of meeting because you are such a nominated person, the following statements apply: (a) you may have a right under an agreement between you and the member of the Company by whom you were nominated to be appointed or to have someone else appointed as a proxy for this general meeting; and (b) if you have no such right or do not wish to exercise it, you may have a right under such an agreement to give instructions to that member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

(v) To be entitled to attend and vote at the meeting (and for the purposes of determination by the Company of the number of votes cast), shareholders must be entered on the Company's Register of Members at 5.30 pm on Wednesday 9 January 2013 (or, in the event of any adjournment, at 5.30 pm on the date which is two days prior to the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting or adjourned meeting.

(vi) Pursuant to section 527 of the Companies Act 2006, where requested by either a member or members having a right to vote at the general meeting and holding at least 5% of total voting rights of the Company or at least 100 members having a right to vote at the meeting and holding, on average, at least £100 per member of paid up share capital, the Company must publish on its website a statement setting out any matter that such members propose to raise at the meeting relating to either the audit of the Company's accounts that are to be laid before the meeting or the circumstances connected with an auditor ceasing to hold office since the last meeting at which accounts were laid. Where the Company is required to publish such a statement on its website, it may not require the members making the request to pay any expenses incurred by the Company in complying with the request. It must forward the statement to the Company's auditor and the statement may be dealt with as part of the business of the meeting.

(vii) Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such questions relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation of the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

(viii) Members have the right, under section 338 of the Companies Act 2006, to require the Company to give its members notice of a resolution which the shareholders wish to be moved at an annual general meeting of the Company. Additionally, members have the right under section 338A of the Companies Act 2006 to require the Company to include a matter (other than a proposed resolution) in the business to be dealt with at the annual general meeting. The Company is required to give such notice of a resolution or include such matter once it has received requests from members representing at least 5% of the total voting rights of all the members who have a right to vote at the annual general meeting or from at least 100 members with the same right to vote who hold shares in the Company on which there has been paid up an average sum per member of at least £100. This request must be received by the Company not later than six weeks before the annual general meeting or, if later, the time at which notice is given of the annual general meeting. In the case of a request relating to section 338A of the Companies Act 2006, the request must be accompanied by a statement setting out the grounds for the request.

(ix) Except as provided above, members who wish to communicate with the Company in relation to the AGM should do so in writing either to the Group Company Secretary at the registered office address or to the Company's registrar, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this notice of meeting or in any related documents to communicate with the Company for any purposes other than those expressly stated.

(x) There will be available for inspection during the AGM and for at least 15 minutes before it begins, the directors' appointment letters and service contracts.

(xi) A copy of this notice and the other information required by section 311A of the Companies Act 2006 can be found at www.bellway.co.uk.

(xii) As at the date of this notice there are 121,471,201 ordinary shares in issue and the total voting rights of the Company are therefore 121,471,201.

By order of the Board

Kevin Wrightson

Group Company Secretary

Registered Office
Bellway p.l.c.
Seaton Burn House
Dudley Lane
Seaton Burn
Newcastle upon Tyne NE13 6BE

Registered in England and Wales
No. 1372603

15 October 2012

Other information

Glossary

Affordable Housing
Social rented and intermediate housing provided to specified eligible households whose needs are not met by the market, at a cost low enough for them to afford, determined with regard to local incomes and local house prices.

Average selling price
Calculated by dividing the total price of homes sold by the number of homes sold.

Brownfield sites
Land which has been previously used for other purposes.

Cancellation rate
The rate at which customers withdraw from a house purchase after paying the reservation fee, but before contracts are exchanged, usually due to difficulties in obtaining mortgage finance. Reservation fees are refunded in line with the Consumer Code for Home Builders.

Code for Sustainable Homes
A national standard for sustainable design and construction of new homes. The Code measures the 'whole home' as a complete package, assessing its sustainability against nine categories: energy/CO_2, water, materials, surface water run-off, waste, pollution, health and well-being, management and ecology. Level 3 applies to newly-constructed Affordable Housing subject to Homes and Communities Agency ('HCA') grant policy and all homes built on HCA land from 1 April 2008. Level 3 differs from Level 4 primarily in respect of the energy/CO_2 levels. Level 3 seeks a 25% reduction in CO_2 emissions compared with the 2006 Building Regulations requirements whereas Level 4 requires a 44% reduction.

Considerate Constructors Scheme
A national initiative by the construction industry, where companies and sites voluntarily register and agree to be monitored against, a Code of Considerate Practice, with a view to promoting best practice beyond statutory requirements.

Consumer Code for Home Builders
A voluntary code governing customer service and satisfaction, created by the NHBC in conjunction with MD Insurance Services Limited.

CSCS cards
The CSCS card denotes achievement of a Construction Skills Certificate, demonstrating occupational competence in the construction industry under the Construction Skills Certificate Scheme.

EcoHomes
An environmental rating scheme for UK homes.

HBF
Home Builders Federation. HBF is an industry body representing the home building industry in England and Wales. They represent member interests on a national and regional level to create the best possible climate in which they can deliver the homes the country needs.

Home Zones
Residential streets in which the road space is shared between drivers of motor vehicles and other road users, with the wider needs of residents (including children) who walk and cycle, in mind. The aim is to change the way that streets are used and to improve the quality of life in residential streets by making them for people, not just for traffic. For more information see www.homezones.org.uk.

Land bank
A supply of plots for potential development.

Lifetime Homes
Are ordinary homes incorporating 16 Design Criteria which add to the comfort and convenience of the home and support the changing needs of individuals and families at different stages of life.

NHBC
National House-Building Council. NHBC is the leading warranty and insurance provider and standards setter for UK housebuilding for new and newly converted homes.

Pipeline
Land bank awaiting planning permission.

Other Information

Glossary (continued)

Planning consent/permission
Usually granted by the local planning authority, this permission allows a plot of land to be built on, change its use or, for an existing building, be redeveloped or altered. Consent is either 'outline' when detailed plans are still to be approved, or 'detailed' when detailed plans have been approved.

Rainwater harvesting
Rainwater harvesting is a system by which rainwater is collected from roofs, stored in underground tanks and then used in toilets and for garden irrigation. Rainwater harvesting can reduce household water consumption by up to 50%.

Registered Providers
Government-funded organisations that provide affordable housing. These can be either non-profit making, such as housing associations, trusts and co-operatives, or profit making, such as housebuilders. Working alongside local authorities, they provide homes for people meeting the affordable homes criteria. As well as developing land and building homes, Registered Providers also perform a landlord function by maintaining properties and collecting rent.

Royal Society for the Prevention of Accidents ('RoSPA')
RoSPA is a registered charity which promotes safety and the prevention of accidents at work, at leisure, on the road, in the home and through safety education.

Safemark Certificate
NHBC's Health & Safety Competence Assessment Scheme.

Section 106 planning agreements
These are legally-binding agreements or planning obligations entered into between a landowner and a local planning authority, under section 106 of the Town and Country Planning Act 1990. These agreements are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms. They are increasingly used to support the provision of services and infrastructure, such as highways, recreational facilities, education, health and affordable housing.

Secured by Design
Is the official UK Police initiative supporting 'designing out crime' and focuses on crime prevention at the design, layout and construction stages of homes and commercial premises and promotes the use of security standards for a wide range of applications and products. For more information see www.securedbydesign.com.

Social housing
Housing that is let at low rents and on a secure basis to people in housing need. It is generally provided by councils and not-for-profit organisations such as housing associations.

Sustainability
Environmental sustainability has been defined as meeting the needs of the present without compromising the ability of future generations to meet their needs.

Sustainable Urban Drainage Systems ('SUDS')
Designed to reduce the environmental effects of surface water run-off, which has been a problem with conventional drainage systems, particularly in new developments. SUDS replicate natural systems with minimal environmental effect, draining away dirty and surface water through collection, storage and cleaning.

Transport node
A point at which residents are able to access a public transport facility with ease.

Thin joint technology
Thin joint technology uses autoclaved aerated concrete blocks with 2mm–3mm mortar joints. The blocks are produced to a high degree of accuracy, and the thin layer mortar sets more rapidly than normal mortar, reducing the length of time before the wall becomes stable. The advantages of this system of construction are high build quality, greater productivity, improved thermal performance, air-tightness and waste reduction.

Waste Management Plan
Plans setting out how all resources, products and by-products will be managed and waste controlled at all stages of a construction project. Site Waste Management Plans are a legal requirement for all sites with an estimated construction cost of over £300,000.

Other information

Notes

Other Information

Notes (continued)

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